dreas stock could apply here. This management stock, Peterson pointed out, was "not in the nature of remuneration in the sense of ordinary income . . . it was a stock transaction"; so if this stock were changed over to another form of management stock, it should not be taxable in any way as remuneration. Peterson also discussed the retirement of the minority block of Nutrena shares, still held by the R. E. Whitworth estate and other original Nutrena stockholders.

Cargill MacMillan, with the help of H. B. Juneau, now proposed a new "management stock" plan, one that would require a major reorganization of the capital structure of the Company. This came into being in August 1956, and in the process the capital structure was redefined. The common stock was split three-for-one, and additional shares of preferred stock and special preferred stock were authorized. In addition, a new form of stock ownership, "management stock," was established. The effect of these changes can be seen as follows:

As of June 30, 1956, *before* reorganization:

	Shares authorized	Shares outstanding
Preferred stock—$50 par value	120,000	101,945
Special preferred stock—$50 par value	6,000	6,000
Common stock—$10 par value	370,000	231,889

As of August 14, 1956, the date the reorganization was voted:

	Shares authorized	Shares outstanding
Preferred stock—$50 par value	400,000	101,945
Special preferred stock—$50 par value	10,000	6,000
Common stock—$5 par value	1,000,000	695,667
Management stock—$5 par value	165,000	—

The new management stock was to be issued by the board selectively to individuals in senior management on an individual-by-individual basis. The total number of shares could not exceed one-sixth of the number of shares of common stock outstanding. At any time the individual could convert his management stock to preferred stock. The Company, in turn, had the right to do the same unilaterally at its discretion. An "adjusted book value" would be determined at the end of each calendar year, which would be the actual book value at the time after the elimination of any value for patents, trademarks and goodwill and also would show the result

of depreciation and amortization in reduction of book values. This up-to-date book value would then apply for any repurchase, required at an individual holder's retirement or death.

The establishment of the management stock also changed the way directors were elected. The special preferred stock would continue to elect the largest minority of directors, but now the management stockholders would have the right independently to elect one director. Then the remaining directors would be elected by a combination of the preferred, common and management stockholders, voting together share and share alike. To authorize any sale, lease or mortgage of assets of the corporation, consolidation or merger, decision to liquidate or dissolve or any decision to increase or decrease the amounts of stock authorized, it would take an affirmative vote of a majority of all of the holders of the various shares of stock (without distinction between the classes) and also a separate affirmative vote of a majority of the special preferred stock.

Thus, the directors had incorporated a top management incentive plan directly into the corporate structure of the Company. The opening paragraph of the plan stated this well. The Company "has grown and prospered under a regime . . . of management . . . by stockholders. . . . The incentive of a proprietary interest in the corporation is the best method of securing and maintaining executive talent of a high order. Competition of other companies for the men in policy making positions in this organization is extremely keen. . . . The offer of a stock interest in the corporation will be of great value in inducing good men to remain in the employ of the corporation."[18]

Before the plan went into effect, the Company exercised its option to eliminate the common stock holdings of those old employees, heirs and collateral family who had earlier given such options. Some of this common stock was purchased outright from them, and in other cases the employee or collateral family member chose to convert to preferred stock.

Allocating the Management Stock

Establishing the management stock was one thing; allocating it, quite another—not at all a routine matter. John Jr., Cargill MacMillan and Austen Cargill first wanted to eliminate the common stock holdings earlier sold to Julius Hendel, John Peterson, Fred Seed and Erv Kelm. These holdings originally had been acquired by the four on a different basis from the proposed management stock. They had actually purchased the stock by borrowing the money with which to buy it and with the Company guaranteeing their loans. These loans varied in amount and were made at different points for each of the four. Therefore, the Company's option to buy, using a formula based on book value, varied substantially among the

four. Cargill MacMillan, in a private memorandum, called this "very embarrassing . . . if we exercise option some stock is called at 130, some at 115 and some at 80."

When Dwayne Andreas, one of the original holders of common stock given to management, cashed his holdings when he left the Company in 1952, the calculation allowed him just over 93 percent of the book value. Essentially this same valuation was now used for the four remaining. Hendel and Peterson were not in management by this time, so their common stock was converted to preferred stock. Seed and Kelm had theirs converted to management stock. The formula produced slightly varying effects—Peterson and Seed received just over 90 percent of book value; Hendel, 87.8 percent; and Kelm, 82 percent.

Next there was the question of how to allocate stock to other senior members of management. As the three family members talked over how many people to include, a substantial difference of opinion surfaced. John Jr. wrote in his diary for August 1, 1956: "I am for the least in number, about 9. C Mac & ASC for the most, about 22." A working formula was needed, and the decision was made to use job levels as the starting criteria—so much for the chief executive officer, a somewhat smaller amount for the executive vice president and so on down the management ladder. Titles did not signify the same responsibility across divisions, and there needed to be balance between those management members who were also directors, some of whom were on the Executive Committee, and those who were not. Further, there were to be limits set in terms of total holdings of management stock. Therefore, when the actual decisions were made for allocating stock, it was not an automatic exercise; the board discussed each person and decided each year whether he or she should be included.

Further, under the new plan, the employees would not be able to buy the stock outright, using loans guaranteed by the Company, as with the earlier plan. Rather, each person would have a "participation allocation," a fictitious sum of shares he was entitled to hold. Each year the earnings per share was calculated; this figure were then split in half, with one half used to purchase stock for each executive holding an allocation of management stock and the other half put into a "deferred bonus" non-interest-bearing account, also in the executive's name. The number of fictitious shares in the allocation for the next year was reconciled with the actual shares purchased. A cash sum was also paid to cover taxes. When a holder of management stock left Cargill at his retirement date, or if he died prior to that date, his two accounts would be automatically cashed out, using a Company-defined updated book value calculation for the management stock. If he resigned before retirement, at the Company's discretion he would be able to cash out at that point (there were no women holders of management stock at this time).

It was an ingenious system, giving the executive portions of his stock each year but holding out the carrot of the much larger holding if he stayed with the Company and continued to perform (the allotment could be increased or reduced at the discretion of the board). Senior management jokingly called this the "golden handcuff." Further, as compensation was tied directly to the growth in net worth of the Company, there was more incentive for management shareholders to promote its growth. Dividend policy had always been set by the family members as owners, and over the years, including the days of John Sr., their philosophy had been to pay substantial salaries and only moderate dividends and retain most of the earnings to build up net worth. Now, by the nature of the calculation of the value of management stock, paying only nominal dividends was in the management stockholders' interests, too.

By the end of the first year of the plan's operation—the end of the crop year 1956–1957—there were only five holders of management stock (and one of these was John Peterson, just phasing out due to his retirement). By the end of the next crop year, eight more people were added, with six more in the crop year 1958–1959. The numbers added slowed for a while after this.[19]

Buying Out Relatives

Not so easy, however, were those situations where the nonoption collateral family and the John D. McMillan group were involved. Here the purchase of the shares became a matter for negotiation. Had the Company been publicly held, with its shares fully distributed and with good market liquidity and with dividends comparable to that of similar companies, there would have been a market price that could have been readily determined. Cargill, Incorporated, was a private company, however, with its stock closely held, no foreseeable public market and a nominal dividend. Thus, the stock would logically carry an "illiquid price," somewhat below the liquid price. Just exactly what this amount was would be determined on the basis of the situation of the Company at the time the sale was proposed. Not only would the then-existing book value be an important determinant but also the relative desires of the Company and the stockholder as to whether each wished the sale to occur. If the holder wanted the sale more than the Company did, the price might be lower than if the opposite were true. Two examples will illustrate this problem.

The first case occurred just before World War II and involved Roy Hoople, one of the Company's long-service employees. Hoople, fearing that federal capital gains taxes would be raised in 1942 and nearing the end of his working career, asked John Sr. about disposing of some of his regular common stock. John Sr. referred the request to Cargill MacMillan, who

proposed a price of $18 per share to Hoople. "This not only gave me a decided jolt," Hoople wrote John Jr., "but was not particularly conducive to my physical well being." Hoople added that he understood that Cargill was a closely held corporation and was not required to buy at all, "but to say that a stock that has a book value of over $55 per share is worth only $18 per share is absurd." Hoople ended: "I had hoped to round out a half century with the Company before retiring, but it is perhaps apropos that I do so at this time and I therefore hereby tender my resignation."

Hoople's action was an unexpected development. John Jr. subsequently penned on the letter: "Resignation not accepted and pay went on whether he came to work or not." Finally, Hoople was persuaded to reconsider, and he stayed active with the Company until December 1946. By then he had compiled over 53 years of service. He kept his stock until his sudden death in 1949 (he was an avid duck hunter and died near a duck blind, going to pick up a duck he had just shot).

The second case involved Howard McMillan. On August 2, 1955, he submitted his resignation as a director of Cargill, Incorporated, Erv Kelm replacing him. He had been on the board since the Company had been reorganized in 1936. Some remember certain ill feeling connected with this resignation, but the remaining record does not authenticate this. Howard McMillan had been elected president of the Minneapolis Grain Exchange and apparently felt that it would be a potential conflict of interest were he to stay on the Cargill Board. There also had been some competitive disagreements between Cargill and Osborne-McMillan.

There *was* animosity, however, just one year later, when Howard McMillan decided to sell his Cargill regular common stock back to the Company. This was in the period when John Jr. was urging such sales, so the motivation came from both parties. There was no option extant, and therefore the price was to be bargained. The Company offered McMillan $100 per share, just under 60 percent of the book value at that moment. The offer was accepted. It was a grudging acceptance, however, for John Jr. noted in his diary on the day of the sale: "We bought Howard's & Katherine's C. Inc. stock for 100 but Howard is intensely annoyed at our bid." John Jr. rationalized his offer by comparing it to an offer Howard McMillan was making in his own company: "Our stock has $84 per share of wkg. capital & book value of about 170. Howard is bidding 1st Nat Bank for Jim Taylor's O&M [the Osborne & McMillan Company] stock only 175 whereas it has book value of 400 & net current of 170."

Perhaps Howard McMillan was antagonized not so much about the sale price being 60 percent of book—Cargill *was* a prime example of an illiquid company—but by the way John Jr. did the bargaining. John Jr.'s diary gives some further clues in its next sentence: "Trouble was we would bid only 80 for 1/2 the bloc or 100 for the whole." Apparently the irritation did not fade away in a few days, for John Jr. recorded in his diary entry of September 18, 1956: "Dorsey phoned in p.m. to say Howard still very peeved at his sale of C. Inc. stock." There seems no doubt that the McMillan family did hold some residual resentment about this event. The John MacMillans, father and son, and the Howard McMillans continued to be friends, however. John Jr.'s diary entry for July 6, 1958, notes: "To the Howard McM's for cocktails & dinner. Home by 10 p.m. & in bed."

At this same time, Edward Osborne sold his block of 1,960 shares of common stock. There was no option here, either, and substantial bargaining was involved. The offering price was the same as Howard McMillan's, but Osborne could have sold all or some at the $100 figure. He chose to sell all.

The other "really troublesome stock" (John Peterson's words) was that held by James B. Taylor. He was a relative of the MacMillans, and his wife was related to the Osbornes. He had been on the other side and perhaps led the insurgency in the family stockholder battle of 1925. He was asked to resign then but continued to hold his stock and to come to stockholder meetings over the ensuing 29 years. This was a substantial block of some 10,430 shares. Taylor died on January 21, 1955, and in July 1955 (a year before the Howard McMillan negotiations), John Jr. initiated bargaining with Taylor's son. There is no record of just how these negotiations were conducted, but the result was a sale of all of the Taylor stock: his holdings of common stock in Cargill as well as his stock in the Minnesota River Company and the Minnesota Western Company and some shares in the Cargill Securities timber company in Canada. The Taylor estate received 47 percent of book for its sale at $78.50. While this was smaller than that received by Howard McMillan a year later, the two instances are not comparable, inasmuch as Taylor's son made a "package deal" with Cargill for the sale of all of the stock, the total to be adjusted to come out to exactly $1 million.[20]

Two Estate Common Stock Problems

Settling the estates of Ed Grimes and Austen Cargill caused difficulty concerning their respective common stock holdings. The two situations were quite different.

Before Ed Grimes died in 1953, he had been given an option to buy 2,500 shares of common stock. After he died, as part of the settlement of the common stock holdings in his estate, his son, Weston Grimes, asked that the option be given to him. The request was granted, and Weston bought the shares in July 1954 at a figure just over 47 percent of book value at that time. The younger Grimes then resigned his post as Washington representative for Cargill and director of its Office of Government Relations, to

go into private legal practice in Washington. He held the common stock that was in his own name until April 1956, when he sold it back to the Company for a per-share amount just under 68 percent of book value per share. The additional substantial holdings of Ed Grimes were sold back to the Company between 1953 and 1963 at a fixed per-share amount, and thus the percentage of the book value dropped each year with the rise in book value. The first year's sale (1953) brought 52 percent of book value; the last sale (1963), just under 28 percent. In effect, the Ed Grimes stock had been cashed out at a frozen figure, with no account taken of the growth of net worth over the 10-year payout time.

In the case of the Austen Cargill estate, a more significant question of equity was at stake. It was learned that Austen Cargill had not left enough ready cash to pay the substantial estate taxes due. The extent of this tax liability finally became known in 1960, and the executors decided that they needed to sell enough shares to realize about $700,000. Once again, this was a matter for bargaining—there was no formula or option in place for any of the three family members. John Jr. handled the negotiations for the Company, and when the figure was finally set, it was 48.67 percent of the net worth per share. Austen Cargill was not just an employee shareholder nor even a "collateral family" holder, he was one of the triumvirate of three family members who had built the Company over a great many years. In his case, he had been centrally involved in the Company since 1909. His estate was in the position of being a suppliant—it had to have the money for the taxes. The conservative figure established by the Company seemed to Austen Cargill's heirs short of giving full credit for his major contributions, and this belief has persisted.[21]

Expansion—with Caution

The bolder public relations program now encouraged the Company to be publicly proud of its accomplishments. In the January 1958 edition of *Cargill News*, Cargill MacMillan, in his new role as president (he was elected on August 13, 1957), wrote a two-page letter to the employees on the Company's "record volume" and "coast-to-coast expansion." The Company had had its first billion-dollar sales year, handling over 14 million tons of agricultural commodities. He even made a general statement about profitability: "Cargill's profit margin was within the one percent level we believe to be best." It would have been unheard of to publicize the profit figure itself. Indeed, the quote was misleading, for, with sales of 1.02 billion and profits of $4.2 million, the figure was substantially less—about 0.4 percent.

The Grain Division had now expanded. There were 48 terminal and subterminal elevators, "on all coasts and in the interior," and 50 country

elevators. The Norfolk terminal had been completed and was in operation; there were new grain-storage tanks at Sacramento and a large addition at Maumee, Ohio; a new elevator at Perry, Georgia, serving the north Georgia poultry industry; and the a large elevator leased at Plainview, Texas, in the center of the country's leading grain sorghum-producing area. The Oil Division had completed its new facility at Memphis, Tennessee, the Company's ninth soybean processing plant. During the year, Cargill had processed 35 million bushels of soybeans and flaxseed, the production of approximately 2.5 million acres of farmers' crops. The Feed Division had finished its 840-acre research farm near Elk River, Minnesota; the Research and Development Department had moved into its new building in Minnetonka. The overall tone of the report was upbeat, a well-deserved paean to the 4,313 employees.[22]

To John Jr., it seemed an expansive period. He wrote in his diary: "Never in my experience have I seen so many attractive opportunities for profitable investment. They exist in grain storage, bulk feeds, veg oil & transportation, singly & in combinations." As usual, he was keen on expanding ocean transportation, to be able to ship grain from Cargill's new terminals on the East Coast—Norfolk and Baie Comeau (when completed)—across the Atlantic to Rotterdam and elsewhere. Further, he wanted to have the Company's own facility at Rotterdam and to have the coastal and inland barges redeliver grain and other commodities to various other ports and towns in Europe.

The European part was going to be difficult, for, as John Jr. put it in his diary, "Tradax will have nothing to do with facilities of any kind. . . . Cross, J.G.P. & Gage are against adding any facilities to their responsibilities." Because of this, John Jr.'s plans began to center more directly on tugs and barges for the ocean voyages. Leasing of tugs was investigated, but as John Jr. put it to Kelm, "Your most interesting letter, with the high quotation for TUG HIRE from Merritt Chapman came yesterday. What it boils down to is that there is no surplus of powerful tugs, and that they want salvage rates for their hire. There can be only one answer: WE MUST BUILD OUR OWN."

Kelm suggested that with Liberty ships now obsolete and cheap to buy, towing two of them without power as "barges" might work. However, this appeared to be navigationally tricky. It might be successful in good weather "but never in winter in the North Atlantic." John Jr. now intensified his belief that Cargill should build and own an oceangoing tug and barges. A number of alternative plans were drawn by John Jr. during this year of 1958, both on a barge carrier configuration and a *Carport*-type tug-barge combination (an unconventional pattern, where the tug fitted into a V in the stern of the barge and pushed it).

John Jr. also wanted to expand the number of domestic inland water-

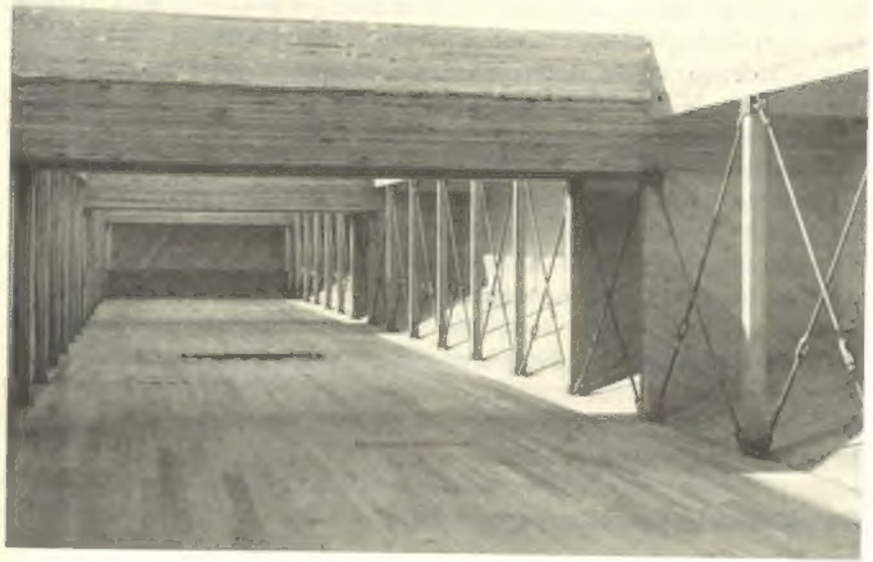
ways barges owned by the Company and began experimenting in early 1958 with a potentially cheaper version, a wooden barge. In September 1958, a wooden mockup barge was constructed of plaster lath at the Minnetonka offices, one-eighth the width of a full-size barge (about 4 feet) but only 8 feet long. There was a large concrete-bottomed pond at the Lake Office, which had been installed by the Rand family when they owned the property (they had called the estate "Still Pond"). John Jr. decided to put the mockup filled with sand into the pool for testing. His diary entry of September 4 commented: "My wooden barge looks good. Model put in swimming pool."

The next day the diary had a second entry: "My wooden barge tested to destruction; failed on deck." The water had soaked the wooden lath, pulling the staples out and creating leaks. It had been tied to the shoreline with a rope, and now all that was visible was the length of rope extending down into the swimming pool—the model had sunk. The pool had to be drained completely before the model could be recovered for salvage.

In spite of the demise of the model, it was decided to build a full-scale version of the wooden barge, to be called the *W1*. When finished by a Cargill crew, it was used for three or four trips but was not built strongly enough to stand the constant wear and tear. Most captains who had anything to do with the *W1* hated it, saying they were ashamed to be seen with a wooden barge, so they always put it on the outside and therefore it got hit an inordinate number of times. Further, it was a fire hazard, particularly when being repaired, and was leaky. John Jr. asked the builder what was wrong with the *W1*, and he replied, "If you nail a million boards together with a million nails you've got two million leaks." Another version of the wooden barge, the *W2*, was built by an outside contractor, but it too proved to be marginally useful. Finally, John Jr. became convinced that wooden barges were not viable.[23]

In the midst of this flurry of ideas and plans going back and forth between John Jr. and his design and engineering team, he left in March 1958 for a long trip to Asia, his first time there. Earlier in the year, while on vacation in Jamaica, a potential boatbuilder had appeared. John Jr. also found "a dream of a site" for shipbuilding, a piece of property in Jamaica that "belongs to the BOY SCOUTS . . . just East of the Insane Asylum." Nothing came of this, so he wrote John Peterson just before he left for Japan: "I intend to ask for quotations on the cost of tugs and barges with a view to letting a contract, if possible, in June." The trip was made with Walter Gage, and they visited Japan, Hong Kong, the Philippines, Singapore, Thailand, India and Pakistan. Tradax had a representative in Japan, and Cargill, Incorporated had a man in the Philippines. John Jr. and Gage planned to investigate additional trade possibilities, and consider a more formal Far Eastern Division office in one of the countries.

As John Jr.'s letters and cables came back to Minneapolis, the rest of the



"A million nails, two million leaks"; Cargill's wooden barge, 1958.

board members, particularly Cargill MacMillan, began to worry that he might make financial commitments that would exceed the board's approval. Finally, on April 4, 1958, Cargill MacMillan sent a sharply worded cable: "Will greatly appreciate your compliance with own policy of not making commitments when away from home office and without possession of all facts. Matter in question exceedingly complex and even we here still do not have all details." He followed this with another cable on the same day, "Add . . . my cable . . . highly important no statement public or private be made by yourself or anyone connected with company." John Jr., unfazed, wrote in his diary that day: "A weird cable from Cargill."

When John Jr. returned, he made a lengthy report to the board. He had been impressed with the Tradax group in Japan and also liked Hong Kong as a possible site for a headquarters. He was particularly excited by the Philippines and told the board: "Opportunities here are simply limitless . . . we have an immediate opportunity in copra, on which something should be done '*at once*.' " (Later, the Company did develop its own collecting facilities there, including an intercoastal vessel system.)

The board, apparently relieved that John Jr. had not made any vessel commitments in Japan, now seemed a bit more receptive to his ocean transport ideas. John Jr. wrote in his diary: "My barge carrier very well received [by the Board] but they are not ready for the 18 . . . barges & tugs."[24]

The board's hesitancy about John Jr.'s plans stemmed in part from its concern about his rampant enthusiasms and quirky designs and in part from some heightening worry about the Company's financing, particularly because of the heavy cash drain for the Baie Comeau terminal. In June 1958, Cargill MacMillan wrote about this to Charles Cain, Jr., the executive vice president at Chase Manhattan Bank, who had become Cargill's senior contact after Hugo Scheuermann's death. Because of upcoming capital needs and concern about further working capital, "we feel the need of additional permanent or semi-permanent funds in our business [because of] our desire not to diminish the rate of our historical growth . . . at the same time . . . to avoid solicitation of outside equity capital." The government was stepping out of its warehousing of grain, so "we will be called upon to warehouse and handle more of our own grain [with] more and more funds tied up in commodities and positions that are not available for collateral purposes." He added, "We realize, only too well, that we must clean up our unsecured borrowings periodically or our banking friends will very correctly assume that we are trying to use bank credit in lieu of working capital."

Out of these conversations with Cain and collateral research by Albert Egermayer, the Company's senior financial officer (replacing John Peterson), a plan evolved that led, in December 1958, to a major new financing arrangement: two long-term loan agreements, one for $10 million from the Northwestern Mutual Life Insurance Company and another for $5 million from the Prudential Insurance Company of America. The agreements for both loans contained some stringent constraints on the Company. The Company could incur no additional debt except current secured borrowings not to exceed 300 percent of the net worth, current unsecured borrowings were not to exceed 100 percent of the net worth, and other purchased money obligations and additional secured or unsecured indebtedness were not to exceed a maximum of $3 million at any one time. Further, the Company was not to incur rental obligations to exceed 15 percent of the beginning working capital of a given year, and the Company's net working capital was required to be maintained at a figure not less than $30 million. Indeed, the Company had no intention of letting its net worth decline below that figure. Cargill MacMillan wrote in his private notebook in March 1958: "In 1965 Cargill will celebrate its 100th anniversary. I am extremely anxious that when that year comes we will be able to exhibit a net worth of a hundred million dollars." Additional provisions also put constraints on the ability of the Company to sell plant or equipment.

These were not onerous limitations—the then-existing Company financial policies already meshed well with them. In the normal course of business the insurance company restraints would pose no problem. Nevertheless, the message was implanted—there should not be any crash programs of capital expenditures nor sudden, huge spurts in expansion plans. The allusion to John Jr. was unmistakable.

John Jr. was not enthusiastic about the insurance companies' proposals, believing they had too high a cost. In his diary he commented, "If we borrow the 15×10^6 from N.W. Life Ins. will have to pay 5¾% for 20 years. A better idea would be to buy out Peavey [the competitor grain company]." In that same diary entry, he laid out the Peavey company balance sheet figures; he estimated its net worth to be $43.1 million. Aside from the fact that Cargill's net worth was just $55 million, and the absorption of Peavey would be an enormous financial challenge, it also was not evident how John Jr. expected the acquisition of Peavey assets to fit what he perceived as Cargill's objectives.

John Peterson, looking at the insurance company agreements from the perspective of Tradax (and perhaps angry because of not being directly involved and not being able to bring in his old Chase friends) was not pleased. John Jr. wrote Kelm: "Pete is really annoyed at our not sending him a copy of our borrowing agreement with the N.W. Mutual. He has a point when he contends that our agreeing to maximum borrowings of 3 ×

Net Worth is most embarrassing to him, as the Chase regularly lends Tradax 12 million on a net worth of only 3. He thinks the rate is too high, etc., etc." Tradax was totally separate from the standpoint of financing, so the insurance constraints did not apply, but it did seem to be an anomaly that the parent company had such tight constraints and that Tradax, the independent arm, had less strict limits.[25]

Tradax Success—Independently

In April 1959, John Jr. made another inspection trip to Europe, again sending the *Carmac* ahead so that he could use it for investigating new sites. Before boarding, he stopped in Geneva and wrote Kelm on his arrival: "The boys here, and especially Walter & Pete are terribly disturbed. . . . I am increasingly convinced that we simply have to appoint a liaison . . . man who does nothing else but smooth over the relations with Tradax." He also found Geneva still less than enthusiastic about visits from the Minneapolis group: "They resent very much our sending over personnel. They insist that they absorb an immense amount of time and no constructive results ensue. However, I attach increasing importance to frequent visits by you, brother Cargill and myself . . . also frequent visits by the members of our family [mentioning also Jim Cargill] . . . let's keep all others at home."

After completing the Geneva part of the trip, John Jr. seemed to have second thoughts about Tradax, faulting in a letter to Kelm "their organization set-up" and disapproving of Tradax "making far-flung investments like Johannesburg and Djibouti." He was particularly exercised that "they simply won't develop a training program . . . instead, they are hiring young men *trained by others* [his emphasis], some 5 to 10 years older." If, instead, Tradax took people "right out of college . . . there would never be any doubts lurking in our minds as to the loyalty of our organization." The Tradax approach "is a terrible mistake and I don't like any part of it." Nevertheless, his conclusion was that "their results are so good that it is hard to criticize or even suggest. We must not discourage them."

The remainder of John Jr.'s spring 1959 trip was taken up with planning physical facilities for Europe. Already new contacts had been made in the Netherlands. The thought of a Rotterdam terminal had been supplanted by a Peterson/Gage proposal for a facility at Amsterdam. For many years this port had been overshadowed in the grain business by its neighbor, Rotterdam. Now the town fathers proposed to build a grain transfer and storage facility, in the process working exclusively with Tradax. Tradax would need only to make a commitment to furnish a specified minimum amount of tonnage and would not be called upon to invest any capital.

John Jr. saw the plans on his trip and approved, "except [there were] no large bins." Later in the trip he visited a number of North Sea ports and crossed to England with stops at several ports.

The voyage ended in London, where the press visited the *Carmac*. In one paper, a picture of John Jr. on the aft deck was accompanied by a caption that read: "Here is Mr. John H. MacMillan, grain tycoon and 100 per cent, 22 carats, genuine multi-millionaire. Beneath him his 300-ton fantabulous diesel yacht, *Carmac*. And what is the background? It's another Riches to Rags story. . . . Mr. MacMillan has chosen to chug his vision of floating richness right into raggety old Chadwell Basin in East End Dockland. And, of course, it's a happy ending. MacMillan is here for a 7-day . . . business trip."

This was the end of the trip, and John Jr. wrote Kelm on May 16 of his evolving plans. First, he now had decided that the coastal shipping could be handled by buying the surplus Liberty ships, either towed or self-propelled. There would be need for coastal port facilities, both in England and along the North Sea and Atlantic coast and, foremost, a large oceangoing ship to connect Baie Comeau with Europe. "We can beat existing (very low) rates by at least a dollar a ton provided we are willing to move it in equipment of our own design in units not less than 40,000 long tons."

In his report to the board on June 1, 1959, after returning, he put this belief even more strongly, attaching the following "urgent agenda" at the beginning, putting it in all-capital letters: "THE PICTURE HEREIN PRESENTED IS VERY PLAIN. THE FIRM WHO FIRST WORKS OUT A SCHEME FOR TAKING ADVANTAGE OF LARGE TRANS-ATLANTIC CARRIERS WILL BE IN THE DRIVER'S SEAT. BUNGE HAVE NOW UNDER CHARTER A 45,000 D.W.T. CARRIER, AND ALSO A 35,000 D.W.T. IN BRIEF THEY ARE FARTHER ALONG IN DEVELOPING THIS PICTURE THAN IS CARGILL OR TRADAX. SPEED IN DEVELOPING THIS PROGRAM IS OF THE UTMOST LONG-RANGE IMPORTANCE." In late June, he wrote his younger son, Duncan, still in Geneva with Tradax: "I have been struggling unbelievably with my boat program but just do not seem to be able to get anywhere. It is not that anyone is against me, it is just that it takes an infernal amount of time and I am losing patience."

On August 3, 1959, he drew up a "Marine Program, 1959–1964" to present to the board. It included purchase of the Liberty ships, larger barges for the *Carport*, construction of a barge carrier, several oceangoing ships and a North Sea program, and a proposal for a 12,000-horsepower Mississippi River towboat as well as a smaller towboat and 100 new jumbo barges. The total for the whole "program" came to $63,525,000. Meeting with the board in September 1959, he allowed that this was an "appalling" figure "but necessary."[26]

Good Year, Great Year

The excitement and preoccupation with the interaction of Tradax and the Minneapolis export business tended to overshadow solid domestic performance in those last two years of the decade, the crop years 1957–1958 and 1958–1959. Profits in the first of these had been almost $5 million, although the sales had dipped back below $1 billion, at $959,000,000. The crop year 1958–1959, the one used for the "*Fortune* 500" comparisons at the beginning of this chapter had been a spectacular one by all measures. Sales once again jumped beyond $1 billion, and earnings were far above any previous year, at $9.1 million. Net worth was up almost 15 percent, to end the year at $66.8 million. The Grain Division's profitability was high, at $3.7 million; the Feed Division did well, too, with a contribution of $1.3 million. It was the Vegetable Oil Division that was the star, however, posting a figure well over double that of the previous year and ending with a contribution to the total of $4.7 million.

There was significant domestic expansion throughout the three divisions. Terminal capacity was now up to over 151 million bushels. The Baton Rouge terminal, first opened in July 1955, had had its capacity boosted by almost 4.5 million bushels, to a total of 7.7 million; there were significant additions at a number of other locations, old and new, and by the end of the decade, total capacity had been raised more than 15 percent over that of 1955. The total volume of grain going through the elevators had increased in this period by more than 75 percent. Virtually every plant in Nutrena had been upgraded and one major new mill constructed at Peoria, Illinois. The total feed tonnage had gone up about 12 percent in this five-year period, but the even greater increase in dollar sales and profitability was a tribute to the division's overall efficiency. The Vegetable Oil Division had added two major plants, at Memphis and at Norfolk, and a smaller company, Sioux Industries, had been purchased, with plants in Sioux Falls and Sioux City, Iowa. The total volume of oil-bearing materials processed by the division (soybeans, flaxseed, copra) had climbed over 38.7 percent in the five-year period. The inland waterway fleet of CCI had added capacity. In 1956, the new towboat *Carcrosse* (Cargill and La Crosse), a 2,400-horsepower twin screw vessel, was added. Then, in late 1958, the *Claude Tully* was added, an eight-year-old boat built by the same company that built the *Carcrosse*. The *Tully* had a much larger capacity, however, with two 1600-horsepower engines, the most powerful towboat in the Cargill fleet. Meanwhile, the *Carpolis* and the *Carpaul* had been cut apart and combined as the *Carcities* (a not-too-effective vessel, called by many the "Cartrocities"). Almost a hundred barges of various sizes complemented the towboat equipment. Two of the Company's lakers also remained in operation, the *Calumet* and the *Hemlock*. There was still a piece missing in the equation, however, one that was needed both for domestic and for international use—the terminal at Baie Comeau. Here things were far from right.

Slow Completions: The Seaway, Baie Comeau

When the Eisenhower-backed Wiley-Dondero Act establishing the St. Lawrence Seaway Development Corporation was passed in May 1954, it was believed that the Seaway might open for traffic in 1958, and indeed there was some traffic through it that year. Even that limited use had shown that ships could be handled faster in the locks than expected, and already there were estimates that the annual capacity of the Seaway might reach 75 million tons, instead of the 50 million originally estimated. Obviously, there would be some real battles for traffic, with the railroads rushing to cut rates and increase service to compete. As one newspaper writer put it in January 1959, "Opportunity isn't knocking—it's breaking down the door." Weston Grimes, hired by Cargill as a representative for the Company with the St. Lawrence Seaway Development Corporation, put the whole situation well with one word—"mercurial."

John Jr. had taken a fresh look at the Seaway in a position paper in August 1957 and once again estimated that costs would decline about 5 cents per bushel between Western lake ports and tidewater. It was this differential that had led Cargill to conclude that Albany would be at a

Queen Elizabeth II speaks at the dedication of the St. Lawrence Seaway, with President Dwight D. Eisenhower seated at right, June 26, 1959 (The Bettmann Archive).

competitive disadvantage and brought the decision to build the Baie Comeau terminal. The Company was now eager to proceed with extensive use of the Seaway. However, on April 25, 1959, when Queen Elizabeth II and President Eisenhower jointly dedicated the Waterway, the Cargill link was still uncompleted.

When the Finance Committee had authorized over $13 million for construction of the Baie Comeau terminal, it had seemed a huge sum, far and away the largest the Company had ever committed. Construction had begun in late 1958 under trying conditions, in terms of both weather and logistics. In April 1959, John Jr. wrote his brother some disturbing news: "We had a real blow today as it develops we cannot possibly get Baie Comeau ready to ship grain before December 1st, and a more realistic date probably is January 1st. . . . The trouble came in the foundation problem on the shipping pier. This pier will take eight months to build instead of the two and a half." One consolation was that they likely would be able to receive grain by about September 1, he added.

By September it looked as if costs were likely to be far greater than the estimates, and Cargill's tax analyst, Al James, sent a memorandum to all concerned requesting that "Cargill people visiting Baie Comeau and other Canadian offices refrain from discussing the cost of the construction program with anyone outside of the Cargill organization." By the first of the year 1959, it still had not been possible to unload any grain there, and John Jr. wrote John Peterson: "We are trying to untangle the Baie Comeau mess, but still do not know enough to make any intelligent comments. . . . It now turns out that no concrete floor was laid in the first big bin; one was laid in the second big bin. They won't be able to lay the floor in the first big bin until the frost is completely out of the ground, which is usually the first part of June." A wire from Cargill's man in charge in late December put the problem graphically: "Already too late, with continually below freezing weather, to pour thin slab on ground already frozen, considering that this area is mostly solid rock and rock fill . . . also on a slope."[27]

The French Barges

When John Jr. told the board in September 1959 that the cost of his $63 million "Marine Program" was "appalling" but "necessary," the board agreed with him on only the first of these two words. Although John Jr. had made several specific proposals for oceangoing vessels in 1958 and 1959, and despite the outstanding performance of the Company in the 1958–1959 crop season (with its 15 percent jump in net worth), the board did not approve a single proposal for a Cargill ocean vessel. This led to tension between John Jr. and board members. As a result, John Jr. now chose to "go it alone" on a major oceangoing vessel. This is an important story, not just for its transportation implications but also because of subsequent problems that led finally to a protracted interfamily argument between the John Jr. family on the one hand and the Cargill MacMillan and Austen Cargill families on the other.

This project had its impetus from Cuban sugar. Since the early 1950s, John Jr. had followed the fortunes of Caribbean sugarcane, both in Jamaica, where he was growing cane on his own properties, and in the great sugar producer of the area, Cuba. The latter had the greatest economic potential, and in the mid-1950s John Jr. had sent his own men there several times to investigate sources. Later, in 1956, he asked Dick Baldwin, Cargill's new director of research to study the problem of drying and pelletizing sugarcane bagasse, the residue of the cane stalk after crushing, which John Jr. proposed to mix 50-50 with molasses for animal feed. Baldwin decided to conduct an experiment at a Company alfalfa-drying site and, after searching the Southeast, found a farmer in Florida with enough sugarcane in his field to yield two truckloads of bagasse. The tests were not promising—drying the molasses in the bagasse mixture was difficult, and the pellets picked up moisture from the air and turned into solid blocks. The costs were beyond original expectations, too.

Despite the question of whether effective pellets could be produced, John Jr. persisted in wanting to develop the marine equipment for handling sugarcane operations between Cuba and the United States (the *Carport* had carried some of this already). For his expanded plans, he wanted to use the *Carport* towboat (with its notch configuration) but with two new 6,000-ton barges, some 350 feet long, 50 feet wide and 27 feet deep (or, alternatively, adopt a barge carrier configuration). As he put it to Cargill MacMillan in an early letter on the project in March 1956, "we simply have to order two barges at once."

There were serious design problems to be worked out, however, stemming particularly from American Bureau of Shipping concerns about the seaworthiness of such a vessel. In 1956, when the *Carport* was caught in the hurricane, the Bureau raised a number of questions about the notch concept (although eventually letting the vessel continue its intercoastal work). So in these various proposals in late 1958 and early 1959, John Jr. found the board unwilling to commit Cargill funds.

At this point, he decided to establish his own separate company for the construction and ownership of the vessels, whichever configuration, and formed the Havana Company, a shell entity incorporated in Liberia but with offices in Minneapolis. Then he himself would build the equipment and develop lease arrangements with the Company for its use. In other words, the sugarcane project would become a Cargill operation but with vessels from John Jr.'s new corporation.

The final project now was set. Hopefully, it was to involve the three

Carport barges so that there could be one at each port loading/unloading and one in transit. John Jr.'s earlier visit to Japan had impressed him with the shipbuilders there, and he hoped to have them do the construction. Failing this, Germany was his second choice. Bids on the barges from Japan, Germany and several other European countries were higher than he had expected. Finally, a French shipbuilder came in with a low enough bid. John Jr. wrote Duncan Watson, now his chief of engineering, in November 1959: "We have covered the world . . . for offers on these barges and the French company is definitely low. . . . If we make a counter bid we run a grave risk of losing the offer and furthermore Tradax is very anxious for a working arrangement with them. . . . If we lose this offer, we would have to trade with the Orient which would not pls me at all."

In these negotiations, John Jr. soon involved Company lawyers, both from Minneapolis and from Geneva. He visited the French firm in November 1959, at its shipyard in Dunkerque, and found he needed considerable help from the Minneapolis legal department concerning details. The lawyers were helpful but insisted that John Jr. make it clear that it was a project of the Havana Company, not Cargill. John F. McGrory, a young lawyer at the Company (and subsequently Cargill's general counsel), wired one of the Company's lawyers in Europe: "Cargill does not, repeat not, guarantee

John MacMillan, Jr., late 1950s.

performance. . . . Mr. MacMillan willing to personally guarantee performance of Liberian corp. . . . Mr. MacMillan authorizes commitment on behalf of Havana Co., not, repeat not, Cargill."

One of the key questions here was the number of barges to be ordered. In his early discussions with the French firm, John Jr. had expanded the number to four. The price if four were purchased would be $341,000 per barge. If only three were built, the price increased to $345,000. If only two, the amount would be $349,000.

John Jr. intended from the start to offer shares in the Havana Company to the rest of the family and to senior management, similar to the mechanism that had been used so many times in the past (for example, with the Minnesota Company, Wesota, etc.). However, he now found little enthusiasm among this group for the prospect of joining with him. His brother was strongly opposed. A Company legend handed down from this period recounts that as John Jr. toured the offices to persuade executives to accept, Cargill MacMillan followed 10 minutes later to tell each one, "Don't do it!" Cargill MacMillan wrote John Jr. in mid-January 1960: "In re your Havana Company, Fred Seed is the only one so far who has definitely asked to be counted in. I think the others are waiting for me to let them know how much it would cost. For most of them, it is simply out of the question as they can't raise the money." Whatever the true story, the fact was that no one joined with John Jr. in the project, and he decided to go ahead on his own. He finally chose to build two barges, rather than four, with the total commitment at just $700,000.

Meanwhile, an unexpected event occurred that was to be devastating for the project. In January 1959, Fidel Castro had overthrown the regime of the Cuban dictator, President Fulgencio Batista. Castro took office as premier in February and in June promulgated an agrarian reform law calling for appropriation of large land holdings. Under this law, the United States sugar companies were to lose their land. Castro then signed an agreement with the Soviet Union in February 1960 for purchase of sugar. In July, President Eisenhower cut Cuba's sugar sales quota to the United States by 95 percent. In October the United States imposed an embargo on *all* trade with Cuba. Thus, the producer of the greatest supply of bulk semirefined sugar in the Caribbean was excluded as a potential source.

John Jr., although warned earlier by Company lawyers about this eventuality, was taken aback but, with his ever-present ability to justify what he wanted to do, had an alternative:

> We are quite embarrassed over the developments in the Cuban situation and I am very doubtful if we will be able to use [the barges] in the Cuban trade—which means we would have to switch either to Barranquilla or Vera Cruz, [also] with a strong possibility they would have to remain in Europe and we would have to use them in the cross channel trade from London to Holland and Denmark. She [the tow-

boat-barge unit] should be profitable in any one of these runs but she will be able to carry such a staggeringly large tonnage that we have to be sure we can dig up business enough to keep her busy

Thus, the raison d'être of the Havana Company project—trade between the United States and Cuba—was now extinct. Further, because the two barges were being built in France, not the United States, they were not "U.S. bottoms" and so could not by law be used in intercoastal shipping like the old *Carport*. As the barges moved to completion in late 1960, there were serious questions about their usefulness.[28]

Calendar 1960, Tragic Year

It would have been wonderful to top the record profitability of the crop year 1958–1959, but the remainder of calendar year 1959 brought substantially lessened performance. The Feed Division profits were substantially lower; the Vegetable Oil group also reported lower earnings. Although the volume of grain acquisition and sales moved well through the season, the lucrative carrying charges from CCC grain were down considerably, as the many congressional inquiries had made the CCC cautious and it had begun using more of its own storage facilities. There was yet another such inquiry in the early months of 1960, a special investigating subcommittee of the Senate Committee on Agriculture and Forestry, to probe once again into "the policies, activities, operations and management" of the CCC. The chairman was Senator Stuart Symington. Some 57 warehouse companies, including Cargill, were studied. The General Accounting Office reported on these companies' net profits from CCC storage and showed a wide variance among them. A large Cargill CCC storage at Port Cargill came under scrutiny in the process. John Jr. wrote John Peterson: "What makes one so mad [is] that everyone knows that it is nothing but an attempt on the part of Symington to get some publicity." The furor died away by late summer.

The Company ended the 1959–1960 crop year with record sales, which were up to almost 1.3 billion. There were record tonnages for grains and soybean products and for copra and coconut products, with somewhat lower feed tonnage. It was not the total volume that hurt—it was the high operating ratios (operating income/operating expense). The Grain Division had had an operating ratio of 82.1 percent in 1958–1959; this rose to 95.7 percent in 1959–1960. The Feed Division was up from 80.3 percent to 96.2 percent; Vegetable Oil, from 57.4 percent to 74.2 percent. The total Company operating ratio was up from 75.9 percent to 89.5 percent. Inexorably, as expenses rose, profitability fell. The 1959–1960 crop year ended with a $4.3 million profit, well below the figures for three of the four previous years. Costs were up almost across the board, with salaries, interest paid and rentals especially prominent. John Jr. summed up the situation in a letter to John Peterson in February 1960: "We are still doing a good volume of business, but with no carrying charges in sight, there is nothing to do but start liquidating, as our expenses . . . are eating us up. This is not a very happy picture" (once again, though, his natural ebullience dominated; he wrote his son Duncan in August: "All in all, I am not nearly depressed about last year as I might be").

In the planning were some substantial new projects. In early January 1960, a new office complex was announced for downtown Minneapolis, to be called the Cargill Building, a 16-story building that would house the Company on four of its floors and other tenants on the rest. Also contemplated in the project was a large motel, an above-street plaza, a 700-seat restaurant, rooftop garden and swimming pool, a shopping arcade and a 1,000-car parking ramp. The $20 million project, hailed by Twin City civic leaders as being of "tremendous importance," was to be a joint project of Cargill, Northwestern National Bank and Baker Properties, Inc. The Baker group would be principal owners, the bank would lease the property, and Cargill would lease its floors to provide quarters for approximately 650 people (but would have no financial responsibility for the building itself). Cargill's part of the project had been planned by John Savage, Cargill MacMillan, Jr., and E. T. Pettersen. After making every conceivable study of location factors, Cargill Jr. told the newspapers, "We found that downtown Minneapolis is by far the best answer, all factors considered." The executive group would remain at the Lake Office, but now Cargill had a more permanent arrangement for most of the rest of its Twin Cities office employees.

The other major project involved a transportation vessel, not the ocean-going variety so favored by John Jr. but one from his domestic wish list—a major new towboat. Early in 1960, it had appeared as if Cargill might be able to purchase a 6,000-horsepower towboat and 60 barges from the aluminum subsidiary of Olin Matheson Corporation. John Jr. wrote to John Peterson in February: "Hughie [John H. MacMillan III] is disgusted at this because he wants a new 6,000 h.p. towboat of his own."

The Olin deal fell through and the Company decided to contract for its own towboat, built to its own specifications. In April, a 6,150-horsepower vessel, triple-screw and capable of towing up to 32 jumbo barges was ordered from the St. Louis Ship Building & Steel Company. The total cost was estimated to be $1.5 million, but it came in at $1,382,850. It was to be a Cargo Carriers (CCI) boat—in other words, owned by Cargill, Incorporated, and therefore not using the outside-ownership basis of several of the earlier vessels. Clearly to be the flagship of Cargill's entire fleet, it was named the ***Austen S. Cargill***.[29]

In the international sphere, Tradax grew rapidly in importance. Erv Kelm reported in April 1959: "It has developed the best grain trading organization in Europe, according to several independent observers." Beyond grain, oil and proteins, its traders had moved into a wide range of other commodities—phosphates, coal, nitrogen fertilizers, potash, silica sand, salt, rice, pumice, molasses, sugar, gypsum, cement, steel and even wine. The Amsterdam terminal facility had opened in 1960, built not quite to Cargill specifications but still promising to be an important end-of-the-line for Atlantic grain shipping. For the time being, the commodities would be transported in other peoples' ships, "even though the separable tug and barge could perform the trans-Atlantic grain transportation cheapest under ideal conditions," so reported Kelm in a late 1960 report to the board. Kelm's conclusions stressed the importance of Tradax: "All in all, Cargill, Incorporated has in Tradax an incomparable facility to increase its export volume. If one would examine our direct sales for export in 1954–55 and compare them to 1959–60, it will show what Tradax means to Cargill. . . . Tradax was started to extend the effectiveness of Cargill—it is fulfilling our fondest dreams, and it must be maintained and extended."

John Peterson was blunt, however, in a letter to John Jr. in March 1960, in picturing the adverse effects on Tradax of some of Cargill's decisions: "Our policy ties to your wishes. You need volume for your seaboard plants as well as plants on the waterways. In order to achieve this volume, we have to sell when buyers want to buy and at prices at which our competitors are both willing and perhaps eager to sell. Your FOB prices reflect everything being squeezed out at seaboard, leaving us with a shell of risks—FOB prices, freight, exchange and subsidies. It is no comfort to have to make a choice between going 'busted' by expense or by risk taking."

Peterson and Gage constantly pushed for better margins and more preferences from Cargill trades, in the process also pressing the case for high bonuses for the Tradax group. The Geneva people thought very short-term, traders always. A high short-term bonus for high performance fit this ethos very well. Their profitability had risen steadily every year through 1959, with a commensurate rise in the book value of Tradax common stock. In 1960, however, the organization did take a substantial loss, their first.[30]

The delayed start of the Baie Comeau terminal had something to do with this. It had continued to be plagued with construction problems, some of which seemed to be caused by chicanery on the part of certain vendors to the project. On July 27, 1960, the terminal finally was finished, and John Jr. and the directors made a trip on the *Carmac* to dedicate "perhaps the most momentous event in the 95-year history of our company." The newspapers, writing of the plant, estimated that the facility would export annually 60 million bushels of grain. "That could mean as many as 250 ships coming and going each year," John Jr. stated. "It will become, as your late Prime Minister predicted, one of the most important shipping centers in the world." Montreal must have thought so—one of their newspapers headlined: "Elevator Threat to City Port." No longer would export by lake be unavailable during the winter months due to ice in the lakes and on the St. Lawrence Seaway. Baie Comeau could be filled to capacity before the freeze, but shipments overseas could be accomplished at *any* time during the year. Protocols were worked out with the United States government to store American grain and Canadian grain separately, "identity-preserved," so that the American grain would be certificated as such, not subject to duty. Federal inspection officials would be posted to the Canadian port as a permanent cadre.

Right away, John Jr. wanted to expand it. "We immediately came to another conclusion . . . that Baie Comeau simply was not large enough and we would have to enlarge it immediately . . . increasing the total capacity to 33 million bushels instead of the 11.5 million we have today . . . in time for the next crop. It looks like the added space will cost around 19¢ per bushel—which will give us a staggering total investment there."

Unfortunately, the chicanery soon became apparent. In August 1960, there was a collapse of the concrete in part of the terminal (due, as a later lawsuit brought by Cargill showed, to poor construction). John Jr wrote in mid-September: "Our Baie Comeau mess is slowly drifting to a climax and I rather think we will ask for an indictment against the crooks who tried to 'take us.' " He wrote his son Duncan· "That plant seems to be hoodoo'ed "

Baie Comeau was on a restricted basis for a number of months. It was a disappointing first year, but John Jr 's vision had been essentially right—it did become a world-class port, fulfilling the Company's expectations.[31]

In May 1960, Continental Grain moved into a major terminal in the Minneapolis area on the Minnesota River upstream from Port Cargill. John Jr. wrote John Peterson: "Quite frankly I do not see how they are able to do the things they are doing with such limited working capital and net worth" (he estimated these at $31 million and $14 million, respectively). John Jr. noted Continental's New Orleans elevator and their lease of a huge elevator in Kansas City and puzzled as to "how they can do the enormous volume of business they are doing." It was even rumored in the trade that Continental was going to build a towboat of the size of Cargill's, to cost about $1.8 million. "They are about as annoying competition as I think we have ever had." Fortunately, Cargill also had been able to obtain two export-oriented terminals (albeit elderly ones) from Norris Grain Company, at Duluth and Toledo John Jr.'s concluding paragraph was revealing as to Cargill's strength: "We got the actual figures by exporters from the United States for last year. Cargill led the field with 28.6% and

Continental was second with 25.4, Dreyfus and Bunge had 17 and 10, respectively. Our work is cut out for us."[32]

Personal Losses

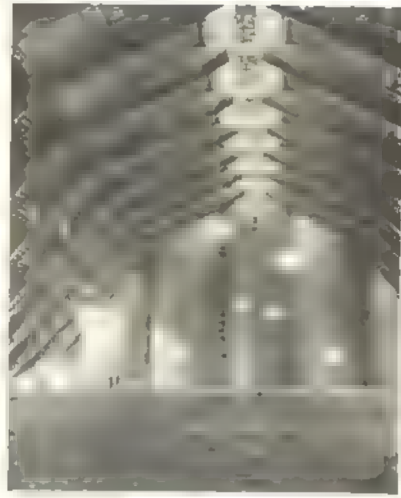
These many plans, successes and progress, slips and steps backward were trivial in comparison to a set of human tragedies that occurred in the year 1960. The effects of these on the fortunes of the Company were profound.

Cargill MacMillan had been taken ill just after Christmas 1959 and had gone into the hospital. He had had pneumonia, and this had caused some severe cardiac damage along with various infections. He left the hospital in mid-March and had been home only one night when he had a stroke caused by an embolism. It was a severe one, which left him completely paralyzed on the right side of his body and with no power of speech whatever. John Jr. reported to his cousin, William Cargill, in August 1960: "His mental powers were seriously impaired but somehow I do not think that will necessarily be permanent. At any rate it was very evident that he could not carry on, so the Directors gave him a 12-months leave of absence. . . However, we simply had to have a President in the meantime so we promoted our Executive Vice President [Erv Kelm] to be President . . . with the understanding that if, as and when, Cargill is able to come back to the business, he will come back as Chairman and I will retire, which I am anxious to do."

"We are fortunate in one respect," he continued;

> both Cargill and I have four very able sons. . . . Cargill Junior has been made a vice-president and is in charge of the administrative side of the business. Cargill's other son, Whitney, is in charge of all of our branch offices in the Grain Division—which is a most responsible position. . . . Hugh, my oldest, is in charge of our river operations and Duncan lives in Geneva and is active in commodity trading other than grain. Jimmie Cargill is also with us . . . and has been developing magnificently. He is the assistant head of our Research and Development Division and is really contributing heavily . . . while my son-in-law Hubert Sontheim, is the head of a Legal and Finance Department for Tradax in Geneva. It is really hard to picture how fortunate both Cargill and I are in that we have genuine talent and character in this next generation.

Through the fall of 1960, John Jr. continued to worry about expenses; he wrote his son Duncan in late September: "We have been putting on an extensive drive to cut costs. [Robert] Harrigan has estimated that the Grain Division alone can reduce their expenses by no less than 3½ million dollars a year without in any way impairing the efficiency and volume of their division. He has made such a profound impression on us that we are all doing our best to implement his program." But John Jr.'s "always move ahead" mentality showed through: "I have made another stipulation . . .



Right, one of the "big bins" of the Baie Comeau terminal elevator, 1960.

Above and below, dedication of the Baie Comeau terminal elevator, July 1960.

the reduction in expenses is to be accomplished by an intensive drive to increase our through-put in our plants. Our real objective is not to just cut expenses but to cut costs per bushel of sales . . . we have a lot of fat which must be gotten rid of." And there were new John Jr. projects—he was keen on a Tradax notion for trading canned goods from the United States and also was immersed in a project to buy a salt mine in Louisiana.

On November 23, 1960, John Jr. wrote another letter to William Cargill (the son of W. W.'s first son, Will) about a loss: "I am terribly distressed to have to tell you that Howard McMillan died last night of a heart attack. . . . It is most distressing as he was in seemingly good health and about to leave for his annual holiday in Santa Barbara." This was a particular shock to John Jr. because he apparently felt (as he told his wife, Marion) that he had not been able to make amends with McMillan over the issue of the latter's sale of Cargill stock, and "now I will never be able to."

The next day, John Jr. was back in the office; the last letter he dictated that day was the one to William Cargill about Howard McMillan's death. That evening at the dinner table, he suddenly became ill and lapsed into unconsciousness. He was rushed to the hospital, and the early diagnosis attributed the illness to a heart attack. After many tests, the doctors diagnosed it as a cerebral hemorrhage. There were moments when he seemed not to recognize anyone, and in mid-December he was moved to the Duke Hospital, to be under the supervision of Dr. Kempner. Leo Sheehan, John Jr.'s secretary, reported to William Cargill: "Mr. McMillan's letter to you on the occasion of Howard McMillan's death was one of the last he dictated . . . he was terribly distressed over Howard's passing."

On the morning of December 23, 1960, John Jr. died. Cargill MacMillan did not have the expected recovery from his stroke and remained permanently disabled. With John Jr.'s passing, the last two of the three family members who (along with Austen Cargill) had held the top positions in the Company for many years now had been taken completely out of the orbit of the Company. The Cargill of 1961 would be a very different institution.[33]

Litchfield, Minnesota

CHAPTER NINETEEN

Cargill's Culture

In the nineteenth century the dominant forces of growth and expansionism and the spirit of transcendentalism were often characterized as intensely individualistic. When Ralph Waldo Emerson wrote in "Self-Reliance" in 1841, "An institution is the lengthened shadow of one man," he captured the era's principal concept of a leader. Nowhere has it persisted to this day with more validity than in the tightly held family company. Cargill has been an excellent example for much of its history.

In this chapter we will see how the Company's dominant values were shaped and expressed over its first hundred years by Cargill's family presidents, not always intentionally or even visibly at the time. By 1961, size and complexity teamed with vastly different external forces to produce a more complicated cultural pattern, as described later in the chapter. Thoughtful observers of the corporate scene generally support the notion that there is an identifiable uniqueness in many organizations. In not a few business corporations, the specialness of the group makes a statement. The organization's features can readily be identified, and one can realistically assume certain behaviors and outcomes. The term "corporate culture" has been applied to this phenomenon in recent years .

The Cargill of 1961 fit this definition well. There *was* a unique Cargill culture that had been generated over the years by its chief executive officers. It provided both a rallying point for people within the organization and also a clearly identifiable set of expected behaviors for those viewing the Company from the outside. This Cargill culture provides the central theme for this chapter.

W. W. Cargill, the Company's first leader, was not an introspective person and most likely did not give much thought to a corporate purpose. That post–Civil War age in which he first put together his small organization was a fluid, fast-paced environment that allowed little time for considering the future. The farming frontier of those days was rugged and

demanding, with primitive accounting and financial controls and a widely fluctuating business cycle that often brought severe depressions but also provided periods of rapid expansion and unusual opportunities. Businessmen's ethics were often uncertain. The local, state and even federal laws to constrain excesses were, at best, rudimentary. The frontier provided its own definition of the Gilded Age, a period of tremendous growth for American business—and countless examples of double-dealing, bad faith and roguery.

W. W. was a product of all of this. His was one of the era's business success stories. He had amassed a far-flung organization and a considerable personal fortune by the turn of the century. His management skills were diffuse, and his approach was often haphazard. Disorganized and forgetful, he never knew exactly where he had been or exactly where he was going. Yet he was honest and stood by his word. His ebullience and enthusiasm seemed to affect a great many people positively, among them important businessmen who were willing to join with him in his various enterprises. He was not a complex man. Newly prosperous, he enjoyed his accomplishments but was ready to forge ahead to new endeavors. However, his grasp of the essentials of the grain trade was certainly present. His acquisitions of facilities from southern Minnesota to La Crosse and then eastward to Green Bay, Wisconsin, evidenced a keen sense of the natural flow of the grain trade. Early on, he integrated vertically into simple feed mixing and flour milling. Later he pursued many interests in transportation and established Lake Michigan and Lake Superior terminal hubs. His brothers Sam, Sylvester and Jim helped him measurably, particularly Sam, who developed the Minneapolis and Duluth operations so well.

At other times there was less logic to W. W.'s new endeavors—the Pine Bluff, Arkansas, lumbering operation and the later purchases of timberland in Mexico and British Columbia seemed almost random acquisitions. The La Crosse & Southeastern railway project demanded huge funds. The Valier, Montana, enterprise was a unique high-risk endeavor.

Generous and sympathetic with both friends and family, W. W. pampered his wife, Ellen. Both, in turn, were supportive and indulgent with their eldest son Will, and so the son developed an overweening personal ego. He too would go like a whirlwind into a situation but did not seem to have sustained interest for routine work. Will had a creative mind but not much financial sense, and he lacked his father's ability to empathize with people and make friends. W. W. Cargill's ability to establish and articulate a coherent vision for the Company was incomplete, while the early patterns of his son Will's efforts in the same vein were even less successful.

The crisis in the W. W. Cargill empire, already building due to Will Cargill's unwise investments in Montana, was brought to a head by the sudden death of the patriarch. But the organization was saved by the business acumen of his son-in-law John MacMillan, Sr. Already John Sr. had been tempered in business, first by an abject failure of his own family's attempt in the grain business in Texas and then in a demanding and difficult role as the head of the Pine Bluff lumber operation. Taking over the northern grain operation, John Sr. had proceeded to consolidate the Cargill Elevator Company sufficiently to survive the financial debacle that the W. W. Cargill estate faced.

John Sr., suddenly taking command of a many-faceted organization, was able to create a sense of purpose and generate a move toward specific goals. He inherited a group of able executives (hired originally by Sam Cargill, not W. W.), then molded them to his own resolutely held and ethically oriented definition of the corporation. He gave them a vision. His own life was rooted in facts; he expected just this from others. Frankness and honesty were cardinal virtues to him, from others no less than from himself. He had a sense of order about business, which he needed to pull together the threads of disarray in W. W. Cargill's companies. His keen appreciation and understanding of accounting, advanced for his times, was eminently practical in that the bottom line was the profitability and financial stability of the enterprise. In an industry characterized by tremendous swings in credit needs, accompanied by wild fluctuations in working capital, he strove constantly to rationalize the system and hold it on course. His accounting skills were extraordinary, and his grasp of finance in the occasional times of great danger for the business provides one of the explanations for the signal success of the Cargill Elevator Company during his tenure.

John Sr. was often cautious to a fault. John Jr. in later years sometimes spoke about the "terrific desire—an overwhelming anxiety for security" that the previous generation held (his words from a speech in 1953). John Sr. wanted to be fully hedged. He disliked spending any money for fixed assets, never feeling comfortable with paying high salaries or large dividends.* His heavy red pencil on expenditures was well known in the Company. A vignette will illustrate: In the 1928 move to the new downtown Minneapolis office, the decorator added some color and decoration to the conference room, but everyone was "scared of Father's reaction," wrote Cargill MacMillan, who was "wishing that Mother were there . . . she dared do anything."[1]

Financial acumen alone would not have produced his successes, however, for the human relations stresses in these years were uncommon. John

*Dividends had not been picayune under John Sr., however; in the board meeting of August 10, 1926, probably because of the stockholder revolt the previous year, he summarized the dividend record since July 1916, when the employees first held stock; in that 11-year period there had been $1,198,000 in cash dividends, another $800,000 in a stock dividend. With the earned surplus, the total applicable to common stock was over $3.6 million, "an average of 22 7% per annum on original shares," he concluded.

Sr.'s human relations skills were considerable. He had a well-defined ego—he knew that he was the head of the organization and was able right from the start to make decisions, to say no, to discipline and to exhort. More important, he knew how to say yes in a positive, motivating affirmation of support, where the person involved believed himself or herself a part of a team effort. In a meeting with such an individual, he would often use the expression, "Let's think aloud." His integrity and openness to his employees gave the work force of the Cargill Elevator Company a sense of belonging and of comradeship. The men of the Company were expected to be gentlemen, and John Sr.'s leadership gave them that desire. He had an ability to inspire trust, both within the organization and externally. This trust, especially from the banking community, really saved the whole organization in the time of financial trouble after W. W. Cargill's death. John Sr.'s charisma did not lie in a powerful and overbearing personality but was built on fairness, honesty and, to use a now-outmoded term, "courtliness."

The reasons why this last word is so appropriate were aptly illustrated in a 1932 memorandum John Sr. sent to all employees. Apparently the wire system (from the Taylor & Bournique acquisition in 1923) had begun to be used sarcastically by a few employees: some messages from the field were "put down" and summarily dismissed by home office personnel. John Sr. wrote:

> Our branch offices have felt many times very much hurt by the tenor of messages from this office, and we cannot get best results from those whose feelings have been hurt. It destroys their initiative and self-respect. These branch offices are just as enthusiastic as any of us [but] may make suggestions that may seem unnecessary, or even foolish, because we cannot see the factors that prompted these suggestions. [These] suggestions from subordinates always should be encouraged and not discouraged . . . courtesy is the lubricant of personal contact and with its proper use we will be able to acquire smooth and harmonious results.[2]

John Sr. had weaknesses. His perspective was that of a regional small-company owner. His decisions were made in the context of Minneapolis, and his view of the grain trade itself was that of a burgher of this lively but still quite provincial city. He had traveled widely, to be sure, and had taken a national role for his industry during World War I. Yet not only his roots but also his outlook seemed inextricably tied to the Upper Midwest. It had been the younger executives, led by John Jr. and Ed Grimes, who had encouraged the purchase of Taylor & Bournique, which allowed the first move eastward.

Further, his caution made him uneasy about looking too far ahead, taking too many chances. To use the economist's terms, he was more oriented toward historical cost than to "opportunity" cost. In other words, he seemed at times overly concerned about money already expended in a particular facility or operation or tract of land. He was unwilling to consider selling it until "the Company could get its money out of it," forgetting the carrying costs and the need to have money available to finance new opportunities, let alone the worry that management assumed. In this sense at least, one could argue that John Sr. was too "tight" with money, too unwilling to spend to make more money, too unwilling to cut losses.

As he grew older, John Sr. tended increasingly to look backward, often worrying over or being unable to forget past setbacks. This trait is illustrated by the extended saga concerning Guaranty Trust's rejection of credit for the Company in the early 1930s. John Sr. continued to nurse what he felt was a slight and perseverated about the issue over and over, even as late as 1940. At that time nephew Morris Barker had met E. H. Rawls, John Sr.'s adversary, at the annual meeting of the Guaranty Trust and reported: "He said you were one of the finest and best friends he had . . . a grand fellow but of all the stubborn Scotchmen he ever met, you were the most stubborn . . . it was impossible to convince you in an argument and what was worse you were generally right." John Sr. (mistakenly) took this as an apology: "He has evidently had a complete change of heart. . . . He was absolutely wrong . . . and never has given me the satisfaction of admitting he was wrong—and it is a great satisfaction to hear in this way that he is now convinced of it." Whether this was an olive branch or not, John Sr. remained unforgiving. He continued: "We have done no business whatever with him or his bank during all that time . . . he boasted to me at the time that if I did not do as he wanted that we would not have any credit left to run the business on, and it has been one of the most complete satisfactions I have ever had in my life to prove to him that even in his own field he did not know what he was talking about."[3]

The Corn Case provided another telling example of John Sr.'s hindsightedness. While he supported John Jr. throughout the battle, it also was evident that his thoughts centered on the decisions that already had been made and had boomeranged and on damaging testimony. John Sr. seemed to emphasize all of the negatives of the case.

John Sr. defined details very well indeed. He knew exactly where he was; he knew how to live within the context of his society. During his earlier days with Cargill Elevator Company, from 1903 through World War I and into the early 1920s, this perspective probably was all that was required. The Company begged for rationalization. It needed to be departmentalized, to have its management structure better organized, to bring in good new men and give them effective management training and development and to become a strong, well-managed organization. This John MacMillan, Sr., did with great success. In the process, however, he did not have a sense of the larger world, a vista of growth and expansion. He had a general management point of view but not a grasp of the strategic de-

mands. If an analogy can be drawn from the days of W. W. Cargill and his son Will, there was nothing of their "frontier" mentality about John Sr. He did not have a vision of the world as it was going to become, and thus he could not position his company within that vision.

Fortuitously, the transition in the 1920s within the industry, where past patterns of regionalization were rapidly changing to a national perspective, coincided with the time when John MacMillan, Jr., joined the company, bringing with him innovative ways of thinking about business and technological innovation. Some of these stemmed from John Sr. Indeed, throughout this story there are rich examples of fathers passing along to their sons whole sets of strictures concerning family standards and personal qualities. John Sr.'s banker father not only exhorted his son about the virtues of careful, meticulous work but even specified the best writing instrument for good penmanship. John Jr. had absorbed his father's excitement about and preoccupation with business. Although at several points John Jr. had expressed interest in other professions (forestry, engineering), there really was not much doubt that he would end up at Cargill Elevator Company. John Jr.'s Yale training had given him a good grounding in economics. His understanding of the fundamentals of the business, the physical more than the financial, was quite well developed.

Right from the start, in John Jr.'s early days with the Company, he seemed to have his father's ability to view the organization as a whole, with all of its complexities and details. A *New York Times* analyst in 1984 called this quality "cognitive complexity"; he wrote: "Recent research suggests that the most successful corporate leaders [have this] ability to plan strategically without being rigidly locked in to one course of events, the capacity to acquire ample information for decision-making without being overwhelmed and . . . able to grasp relationships between rapidly changing events." John Jr. had this synthesizing sense about business, for he could see components in their individual niches, then put them together in the overall picture. He could see threats and negative changes as opportunities. The remarkable assignment given to him at such an early age, when he was made an adjutant in a United States Army brigade, was based on a recognition of this organizing and conceptualizing ability. But, unlike his father, occasionally he seemed *not* to want the facts—lawyers' admonitions, for example—unless they fit into his view of the whole. Sumner "Ted" Young, a senior Company lawyer, commented: "When you had to tell John no on the subject of law, you had to have two or three Supreme Court decisions of the United States going your way . . . it was good training for the Law Department because we got pretty used to being loaded for bear when we'd go to tell him no." And when financial advisors warned him regarding the expense involved in a new strategic or technological idea, he also did not wish to hear.

The very time that John Jr. was joining the Company was a period of great change in the grain trade. He sensed this from the start. His concept of the "endless belt," whereby a grain company would benefit if it were to control every stage of the process, was a perceptive insight for that time. He understood that the industry was going to move East, and then on across the waters. More important, he knew that *Cargill* would have to do so. Perhaps it was that Yale training, combined with his experience during World War I that gave him more of an international perspective than his father had. If so, it was serendipitous for the Company that John Jr. was able to urge these changes just at a time when they were going to be most important.

By the end of the 1920s, a decade that had finished with the great market crash and the Company's need for innovative corporate planning, John Jr. had already begun to assume the role of chief executive officer for the organization. Two years later, in 1932, he was named formally as the Company's general manager. John Sr. was still reasonably active in the business, although illness was beginning to intrude. However, his interests turned toward other members of the family and relatives outside the Company and to national political questions, particularly government control of commodities, with which he had been so involved during and just after World War I. He still was titular head of Cargill Elevator, but John Jr. was already its general manager in fact. There was no question by this time who was the heir apparent. It was John MacMillan, Jr.

Significant differences distinguished father and son. Their personalities were developed out of divergent experiences, made further evident by the patterns of living that the two men experienced. John Jr.'s emotional makeup was considerably more volatile than that of his father, although John Sr. *had* had "several nervous breakdowns" (his doctor's words) during the Texas grain company mishap before the turn of the century. In particular, John Jr.'s not-infrequent attacks of nerves seemed to give him some unease about his relationships with others and caused him momentarily to lose his self-confidence. Indeed, there was one long bout with this, early in the 1920s, when John Jr. banished himself to the woods of British Columbia after raising the ire of his fellow executives. At certain times, he had a need to cut down on input from the outside. He seemed to sense at these more fragile moments that he could not handle dissonance, for he appeared sometimes not to have inner abilities to screen out conflicting inputs from others. He worked only with Austen Cargill there, but even with him he was tendentious. John Jr.'s illness at the beginning of World War II shocked his brother, who felt unequal to being left with all of the responsibility. John Jr. did not recuperate very well, and Cargill MacMillan wrote his mother and father: "John is not in good shape and I do not know what to do about it. All he needs is a vacation for it is entirely a

matter of nerves, and the nervousness is entirely mental. Yet there is nothing that he seems to be able to do about it. He throws up regularly every morning after he comes into the office, and unless he leaves the office right after lunch he is sick again." The rice diet from Kempner after the war seemed to restore John Jr.'s vigor, but until his death he remained inordinately concerned about his health. He more than once disconcerted Wayzata dinner hostesses when he brought along his spirit lamp and cooking pot and set them right on the dining table to cook his own rice.

John Jr.'s interpersonal skills, although not inconsequential, were not of as high a level as his father's. He was not intuitive in relationships with others—at Yale he had had to self-consciously practice this ability. A senior manager in the terminal side of the business commented shortly after John Jr.'s death, "He never fraternized with the superintendents very much. I think he would have liked to, but I don't think he knew how." Yet John Jr. was able to elicit great loyalty from people he worked with, both as equals and as subordinates. This loyalty was mixed with fear on the part of many people beholden to him for employment or contracts, for John Jr. could be intolerant of any deviation from unfettered loyalty. Often when he met someone, particularly someone he considered a social and intellectual equal, sparks of mutual excitement and interest brought great friendship, and one quality of these several friendships did seem to be a mutual loyalty. But he had less empathy for ordinary human beings and did not think their needs important. John Jr. might sometimes be difficult to deal with, but he generally commanded the respect of others. His cerebral, wide-ranging mind moved fast, just as did his speech, and new ideas came from this like sparks shooting out in all directions. He had a verve about him that often put him on the bull side of the market and into major expansion. John Jr. was not as much interested in the details—he wanted to see where the project was going, what might be done beyond it. He, more than his father, was opportunity-cost oriented—if a new idea would not work, he was prepared to give it up and move on.

In his first decade with the Company he made many unilateral decisions—altering the ways of purchasing insurance and chartering lake freight, changing office procedures and shifting responsibilities. These changes were made quickly and decisively, in a manner often bordering on the autocratic. Generally, though, John Jr. seemed willing to listen (if the speaker could talk quickly), if most of the time only to take the other person's idea and incorporate it into his own tenacious vision. He thrived on intellectual combat, often reiterating that he did not want to hire people "just like himself." However, in such situations he often would reply, "You're absolutely right, *but* . . ." He could be, and often was, a spark plug for others—but he also could come down very hard on viewpoints with which he did not agree. Mistakes were not tolerated with much compassion by John Jr. In this he differed from his father, who was willing to accept a mistake if openly reported, provided the person learned from the mistake and could go on from there. John Jr. had an essential sense of his rightness about decisions and was perfectly willing to state these bluntly, decisively—and irrevocably. In a posthumous article about him in *Cargill News*, he was quoted as earlier admitting to a reporter, "Either way you like it—a man of strong opinions or an opinionated man, I see things in black and white. If there are shades of grey, I have no time for them."[4]

Overt hostility came out many times about some of these strongly articulated decisions by John Jr.—the revolt in 1925 was the clearest example, but there were other such antagonisms. John Sr. backed his son throughout, as if saying, "it is my son's company, his decision holds sway." Earlier in this book it was suggested that perhaps John Sr. was even a bit dazzled by his intelligent and voluble son—almost overpowered by him in some instances. He seemed to take pleasure in seeing things happen that circumstances and his own caution had not allowed earlier.

The dozen years from the Great Crash of 1929 to Pearl Harbor in late 1941 transformed Cargill from a medium-size regional grain company to a large national corporation with fresh links abroad. Cargill had changed from a little-known midwestern company in the early 1920s to a respected but often feared major national force. Indeed, particularly because of the inglorious Corn Case, the name Cargill and that of its chief executive officer, John MacMillan, Jr., became well known much beyond the confines of the grain trade itself. Company officials savored the recognition garnered by their innovations, although often feeling that John Jr. took the lion's share of the credit. But they disliked intensely the notoriety stemming from that case.

John Jr. dominated this period. Even taking into account the Company's able cadre of senior executives, John Jr. was the chief executive officer in its most literal sense. Few decisions were made without his imprint; few deviations were allowed without his prior approval. John Jr.'s philosophy of management had persuaded him to centralize authority largely in his own hands. The endless-belt concept that John Jr. held so tenaciously tended to encourage this centralization. The automaticity of a belt going endlessly took away considerably from individuality within the system. No longer could Lindahl and his successors in Duluth and others like them throughout the divisions have the autonomy and the individual credit for profitability of the old days under John Sr. The advantages of the endless belt were many, but this was one of its disadvantageous features, only partially addressed in the decentralization efforts after World War II.

John Jr.'s predilections for dominating the decision-making process sometimes exacerbated this problem. Yet this was not a single-dimensional autocrat. When retired employees who had worked with him talk about

him, it is with a wry smile, a story of one of his "crazy ideas," a testimony to the excitement he generated, followed by a statement that while he "was often eccentric," he was the smartest man they ever met.

It had been a period of extraordinary innovation by John Jr. himself, pushed along by his eclectic interests, his wide-ranging mind and his abilities as an amateur engineer and helped also by Frank Neilson's equally amateur technical expertise. Together they had fostered many new ideas for the grain trade, widely publicized and widely although not universally acclaimed. The Omaha/Albany "tent" roof configuration and the "big bin" system of storage at those terminals had worked well for the Company (large bulk storage for small cost) despite misgivings by bankers and insurance companies about the explosion hazard in light of the one severe explosion at Omaha in 1934. Even as late as December 1940, the USDA official in charge of the federal government's Warehouse Act was asking about the Company's new St. Louis terminal: "How you are going to handle these many different classes with their many different grades in an elevator with so few containers?" The answer, Ed Grimes stated, was to use it in tandem with the older St. Louis terminal—but this response really did not speak to the questions about the "big bin" itself.[5]

The inland-waterway visions of John Jr. in the 1930s with respect to the Erie Canal also were strikingly successful. The single-skin steel barges and the *Carneida*-type towboats with the V notch greatly increased the efficiency and capacity of the Company's grain transportation. To be sure, this was on the Erie; when John Jr. later took them to the Mississippi, they were not up to the task. John Jr.'s ocean transport concepts, used in the construction of the *Carlantic/Victoria* were not as unequivocally successful. Nevertheless, the welded plates in this vessel and the simplified Cargill method of construction garnered considerable interest in the industry, although initially there were many skeptics about the durability of both the knuckle joints and the welding. The ship's miraculous survival after several direct torpedo hits gained some believers.

The tent-roof plan, first used at Omaha, led John Jr. to design the roofing of other structures. Right after World War II, John Jr. anticipated some of the modern fabric dome roofs of sports palaces around the United States when he experimented with a similar air-pressure-supported system with a metal roof for a large grain elevator ("the perfect application for this is for sport events, armories, garages," he wrote in July 1946).[6] The fact that later his full-scale version ignominiously collapsed is often cited as an example of John Jr.'s "harebrained side," that many of his innovations proved to be unworkable. But in this case he was just ahead of the necessary technology for entrance and egress. He did misfire on some plans but seemed to be able quickly to forget about a failure and ebulliently go on to his next new idea. He communicated a conviction that he was always right—a supreme, egotistical confidence, even though he was wrong many times.

Innovations for the grain trade were not the only things that intrigued John Jr. He evidenced ever deeper interests in weather patterns as he continued interacting with his mathematician uncle, Will. During World War II he began writing a book on the subject and was in contact with and giving advice to the Weather Bureau of the United States government (his advice was ignored, however). John Jr. also continued his interests in ocean transportation. Among his personal files are huge notebooks of drawings of various vessel configurations, with detailed analyses of shipping times and sailing distances all over the world. Finding little financial support from his colleagues at Cargill for oceangoing barges, he made the ill-conceived decision to form his own company to build them. They were just being completed at his death. He was interested in navigational equipment and had personal designs, for example, for gyrocompasses. His files contain drawings for an "electric still for home use" (to purify water), for a low-heat cooker, for a new type of tennis court and for other projects unrelated to the grain trade. He also had corresponded with his Uncle Will for years on their mutual interest in astronomy. In the World War II period, John Jr. developed a theory of a tenth planet in the solar system.[7]

John Jr.'s focus always was on winning and in the process positioning Cargill for the future. His almost-frenzied buying in his challenge of the Call Rule after the Company's expulsion at the time of the Corn Case was as much an emotional response as it was a business decision. Once again it was the dominance of the trading mentality, always so very strong in the Company (thus, the conventional wisdom that only a successful trader was capable of taking upper-level line responsibility). It was a merchant mentality, a transactional "win-lose" viewpoint (as with Julius Hendel's maxim, "you're mine for 1/4th"), rather than a customer-related "win-win" relational basis. Yet John Jr.'s thinking ahead tended to reach beyond the trader's horizon to true long-range planning.

The Corn Case was decided, both in the courts and at the bar of public opinion, as much by the values and ethics of the individuals involved as by the specifics of marketing corn and the mechanics of trading. John Jr. and Julius Hendel had aggressively, indeed unrelentingly, pursued their goal of domination of the corn futures contract at the Chicago Board of Trade and had used some competitive tactics bordering on subterfuge. So too had the other side, but it was Cargill and John Jr. that were censured by the government's Commodity Exchange Authority.

Looking over the sweep of management decision making carried through by John Sr. through his years of stewardship in the Company, there are significant contrasts in values between his approach and that of John Jr., although one must avoid oversimplifying and stereotyping these.

John Sr.'s high level of personal ethics and consistent application of these in the business stand out among his many virtues. John Jr. competed vigorously, sought every legitimate advantage possible, often proceeded secretively. Were one to look at the Corn Case alone as a microcosm of John Jr.'s values, one is tempted to make some sharply negative judgments. As one family member put it, "Instead of running down the center of the field he skirted the sidelines and sometimes stepped out of bounds" (and if the football analogy is pursued, he had a number of spectacular touchdowns!). He held strong views about politics, indeed about the whole human race, and stated these opinions vocally and bluntly, in the process often appearing arrogant, stubborn and elitist. John Sr. was equally stubborn but certainly would eschew much of John Jr.'s aggressiveness and embroilment in public controversy. Yet John Jr. rigidly stressed "playing by the rules" (but *his* rules, defined by him) and always keeping one's word. His standards of ethics were articulated differently from his father's but had many (but not all) of the same features.

Where John Sr. and John Jr. parted was on the extent of risk taking. John Jr.'s innovativeness, drive and aggressiveness constantly carried him into new projects, always searching for a better way, a larger piece, a greater involvement, a cheaper cost. He consistently sought to be ahead of everyone, what today's economists call exploiting "first mover" advantages. He told successive trainee classes after World War II that Cargill's market share should be "60% or above." While both men were conservatives in a political sense, John Sr. was a conservative almost across the board. His constant concern about spending money, his need for precise accounting, his worry about holding down costs and his caution about taking a chance on a new idea stand in stark contrast to the attitudes of his son.

It is interesting to speculate on the interaction and differing personalities of John MacMillan, Sr., and John MacMillan, Jr. These two intelligent men had been the driving force for the Company since almost the turn of the century. One wonders what the Company might have been had their roles been reversed—if John Jr., with his charge-ahead philosophy and risk-taking mentality had been the chief executive at the time of the crisis of W. W. Cargill's death and John Sr. in charge during the rapidly moving, complex challenges of the 1930s. In this situation, it is probable that the Company still would have been a small regional force, if indeed it had not gone under altogether because the wrong mentality was present at the time for caution and an equally wrong mentality at the time for growth and opportunity. Such "counterfactual" history can only be hypothesis and supposition; the succession from John Sr. to John Jr. is the reality. That this was an efficacious combination seems validated by the success of the Company by 1960.

Cargill MacMillan was more like his father than was his brother. A family man, he was characterized widely as loving and gentle. He was a true intellectual, had attended Cambridge University after Yale, was an avid collector of books over a whole spectrum of interests, and was an artist of some ability. He had a pervasive preoccupation with conserving family assets over the long run and a strong belief that governments squander money. He felt that the business corporation was a better steward than government but worried about the corporation staying strong over generations. He often cited the Hudson's Bay Company and Harvard University as examples of self-perpetuating institutions that had dealt well with the issue of longevity. He continued to search for a vehicle to allow the positioning of some Company assets outside the country, not because he believed this would be operationally more sound but because it would conserve assets. The Company's outside counsel warned him at one point, in May 1937, that the Bureau of Internal Revenue was watching with a jaundiced eye the formation of offshore corporations "in small and obscure islands" and that it would "resist to the utmost any such schemes."[8] But Cargill MacMillan's interest continued unabated.

He was the inside man, immersed, perhaps overly so, in details of all sorts, concerned about taxes and the bottom line of profitability and always deferring to his older brother. John Jr. must have been an awesome role model for a brother five years younger. Often, Cargill MacMillan was put in the position of making John Jr.'s ideas happen—he had responsibility but little authority. Yet he was always willing to speak his mind to his respected and beloved older brother. For example, at a height of tension in World War II, when John Jr. wanted to build another oceangoing version of the *Victoria*, Cargill wired his brother: "Just received your proposed memo. . . . I like it but still wish caution. Impression one gets when too radical ideas are too hurriedly presented." In the late 1950s, when John Jr. vehemently urged the building of oceangoing barges, it was his brother who kept the project from being Company-sponsored. Thus, in the final analysis, Cargill MacMillan consistently acted as a balance wheel of prudence for John Jr.'s adventuresomeness.[9]

Cargill MacMillan also became the watchdog for executive salaries. There had been an early bonus system, one not formalized but applied selectively by John Sr., Austen Cargill, John Jr. and Cargill MacMillan upon recommendation of a senior executive or branch office manager. However, it seemed that most requests initiated by a senior executive demanding more money would be looked at by the four with considerable outrage. Julius Hendel, for example, had asked for a raise in June 1940, and Cargill MacMillan's draft reply stated: "I have talked with Father and John Jr. We are all sorry you felt it was necessary to approach us on various occasions for what might be termed a raise, for we have prided ourselves in our policy of seeing to it that our key executives were paid enough so

that there could be no question of their satisfaction and loyalty, and the fact that you are the only one who has pushed or prodded us in this regard has caused us grave concern." (Times did change after World War II, however, and more and more key executives pressed for increases.) John Jr.'s friendship with Julius Hendel seemed to cool at about this time. For example, he wrote Cargill MacMillan in February 1941: "Julius's predeliction for being a good fellow when out of town [referring to expense accounts] has always exasperated me, just as it does you." Yet this relationship between John Jr. and Hendel should not be downgraded, either. Hendel had been one of the premier innovators, both in his early work in grain analysis in the Grain Laboratory in the 1920s and in his efforts for scientific feeds in the 1940s. Hendel long had been John Jr.'s mentor on grain trading—they had pulled off many of the early coups together. But now John Jr. was fascinated by shipping; Hendel had become more interested in feed and oil, and they had begun to drift apart.[10]

Cargill MacMillan did have the special quality of being able to look at himself objectively and introspectively, to analyze his own strengths and weaknesses. In early 1944, he wrote his older brother an insightful letter in which he compared himself to John Jr. The subject happened to be the management role of Austen Cargill, the third member of the family triad that had led Cargill all through this period. The key sections read as follows:

> Austen is adding, I think, the ingredient that you and I have been looking for. I think we have found our general manager. He has a great deal of the personality that you and I lack and as you say is a horse for work. I also have a feeling that Austen has finally come to the point of view that he is perfectly willing to defer to our judgment. I don't think he has been able to put this thought into words, but I am sure he feels it. Namely, that your extraordinary faculty of synthesis is a rare and valuable one, something that has long been a mystery to him but which he is now ready to appreciate.
>
> I rather have the feeling that this ability to synthesize is a Cargill trait and I am sure Austen has it to a much greater degree than I. On the other hand, I think I have father's ability of analysis, a MacMillan trait. Give either father or me a problem, mathematical or otherwise, and we'll come out with a nearer correct answer than you or any other Cargill.
>
> In other words, I feel very happy in thinking as you do that Austen has found his place in the business. He no longer distrusts you and me and I think he will supply the complement of energy and personality that we lack.

Cargill MacMillan may have assumed too much here, for these comments had not had the benefit of a personal discussion with Austen about his presumed newly discovered feelings of trust toward the two MacMillans. Indeed, the tinge of superiority in this letter may have reflected an attitude that would be communicated to Austen. It was on the basis explored in this letter, however, that Austen Cargill then assumed the position of executive vice president of the Company in August 1944 (positioned above all of the other vice presidents, including Cargill MacMillan). However, this balance of skills of the three still was not all that was needed, Cargill MacMillan felt: "I think we still have need of a fourth wheel. One thing all three of us have in common is courage. Another thing we all lack is psychological ability. Our immediate friends understand us but all of us shock what might be termed the general public and we hate to be brought into direct contact therewith. Perhaps Bob Woodworth or Ralph Golseth can help us out here."[11]

It was true that none of the three (nor John Sr. in his day, for that matter) felt comfortable with public relations, and as a result the Company had not been good at it. Ed Grimes had served well with many sensitive industry relationships, but he, like his contemporary, John Sr., was pulling back from major involvement at that time. As valid as Cargill MacMillan's suggestion of involving Golseth or Woodworth was at this time, it was not until the late 1950s that Woodworth was given this assignment. The legacy of secrecy held so strongly by John Sr. died hard.

The role of Austen Cargill was more important than Company oral or written history accords him. Cargill MacMillan's perceptive linking of Austen with John Jr. in respect to synthesizing (or, to put it another way, to see the broader perspective and not be a prisoner of details) captures Austen's key ability very well. Austen Cargill was *not* a detail man, although he knew accounting exceptionally well. He was able to delegate and yet keep track of what was going on in his own country elevator organization. Here he was probably a better management man than John Jr., for John Jr. had so highly centralized the Company in his own hands by Pearl Harbor that it was remarkable that he did not *over*dominate his executive colleagues (a testimony, incidentally, to the strengths of these two other family men). For this reason, John Jr. was not as good a mentor for younger people as he might have been. He did have the ability, by his charisma, to excite and intrigue people, and in this sense his leadership was quite positive. But his instinct for domination soon would take over, often with critical comments that would negate the positive. John Jr. did not suffer fools readily, and he did not recognize or value the need to nurture, to shape growth. John Sr. always commented on good things and coated his criticism. Austen Cargill had this same quality. But neither John Jr. nor Cargill MacMillan did—they tended often to skirt over or skip the positive and to emphasize the negative. John Jr. and Cargill seemed to have forgotten John Sr.'s example.

Austen was independent, personally detached, in his own milieu of country elevator managers and friends out in the field. Yet his ideas, too, had significant impact on John Jr. and on the Company as well. Austen was an innovator in his own right. Indeed, more than one Company in-

novation during this period was his, not John Jr.'s. For example, one of the problems with the *Carneida*-type barge arrangement was steering; something needed to be done to better control the front end. In July 1941, John Jr. wrote Neilson: "Austen suggested that we steer the barge with Sperry automatic steering mechanism actuated by relay from the tug. This would enable us to pull instead of push. He also suggested we might use Diesel electric propulsion with the Diesels on the tug and a motor on the barge, but I am afraid this would run afoul of the Maritime laws. Don't you consider the first suggestion entirely practicable?"[12] Frank Neilson certainly did, and this bow steering device became a hallmark of the Cargill barge units, subsequently to be adopted widely by the industry.

Thus, the triumvirate of Austen Cargill, John Jr. and Cargill MacMillan was a felicitous one most of the time—more so, again, than oral history accords it. None of them ever completely forgot the stockholder battle in 1925, despite Cargill MacMillan's roseate words in his 1944 letter. But any differences had long since been papered over, and the three men presented a unified view to their colleagues. Whether they believed it privately is less clear.

What Role for the Next Generation?

The death of Austen Cargill in 1957, the permanently damaging stroke of Cargill MacMillan in early 1960 and, finally, the death of John Jr. at the end of that same year left a huge void in the families' role in Cargill top management. Given the dominant position John Jr. had assumed as chief executive officer, his sudden unexpected demise left a gaping vacuum. How was this to be filled?

Members of the next generation of Cargills and MacMillans were already in the business—Jim Cargill (born 1923), son of Austen Cargill; Cargill MacMillan, Jr., (1927) and Whitney (1929), sons of Cargill MacMillan; Hugh (1928) and Duncan MacMillan (1930), sons of John Jr. All were in their 30s; all had assignments in middle management (some in staff positions, others with line responsibilities). None had had general management responsibility, and none had yet been elected to the Cargill board.

Management vacuums more than infrequently tend to go through a competitive winnowing before final resolution. Given the absence here of specific succession plans, it was to be expected that several alternatives could be envisioned. An early question related to the role of these five young men in the next generation of management. Senior management was predominantly professional from outside the family (from the family, only Cargill MacMillan, Sr., remained on the board of directors, but he was inoperative as a decision maker due to his stroke). This management team now speculated what would be the new relationship of these five

younger family members to the Company—and, specifically, to the senior managers. Would the five assert their ownership prerogatives in some unforeseen way?

But the five quickly resolved any concern that senior management might have held. Several of the senior group had been helpful with advice, particularly Erv Kelm, then Cargill's president; H. T. "Terry" Morrison, vice chairman under John Jr.; Sumner B. "Ted" Young and Joseph H. Colman (a member of Cargill's outside counsel). The five family members, however, decided in the spring of 1961 to meet on their own to discuss their upcoming responsibilities to the Company. This was the first such meeting for what became an ongoing use of the "family meeting" by these five over the succeeding years, down to the present.

Shortly before this first meeting in April 1961, two of the five, Jim Cargill and Whitney MacMillan, had attended a middle-management training session, a first involvement with Ben Tregoe from the firm of Kepner Tregoe,

The second of the Kepner, Tregoe senior management sessions, February 1962. Seated, left to right, Charles Mooers, Barney Saunders, Erv Kelm, Pete McVay, Dick Baldwin, Bob Diercks, Bert Egermayer, Herb Juneau; standing, Ben Tregoe, Sid Burkett, Bob Harrigan, Cargill MacMillan, Jr., Bob Burkey, Don Levin, Fred Seed, Hap Wyard, John Savage.

an outside consultant. Tregoe had developed a unique problem-solving concept, and Cargill was trying it out for the first time. It involved an ordering of objectives on a "must/want" hierarchy and, by the use of a common language developed by Tregoe, the application of a rational thought process to decision making. (The Tregoe method was a signal success in the Company, and its use has extended down to the present.) The two family members described this process to the other three, and a modification was then constructed for that first "family meeting" that produced a collectively generated list of family objectives. A lengthy list of possible objectives was elaborated. Some were oriented toward the Company, others to the individual family. Then each member of the group applied the Tregoe concepts for his own ordering process, and these were then cumulated for a "collective wisdom." The top five of all of the objectives were (1) "best management to the top," (2) maintaining a fiduciary responsibility to employees, (3) preserving control by the families, (4) continuing the retention of earnings, and (5) making capital grow.

The objective of having the best-qualified management leadership possible was picked as the top objective by all five young men. Further, the group defined this as keeping in place in the Company the best-qualified management team, whether or not from the family. Over the succeeding years, other objectives rose strongly in their hierarchy at these family meetings, but "best management to the top" has remained a paramount objective of this generation of owners down to the present.

And so over a number of meetings with the management group in that critical transition year of 1961, the five family members made it clear that they believed themselves not yet ready for senior management responsibility and not yet ready to assume positions on the board of directors. Ted Young took John Jr.'s vacant board post, and the remainder of the board stayed the same as it had been the previous year (Kelm and Morrison, together with Fred M. Seed, Albert G. Egermayer, James C. North, Robert C. Woodworth, H. Robert Diercks and the nonoperative Cargill MacMillan, Sr.). Kelm became chief executive officer in addition to president; Morrison took the position of chairman, and when he retired in August 1962, Jim Cargill became the first of the five younger family members to join the board (Cargill MacMillan, Jr., followed in 1963, Whitney and Duncan MacMillan in 1966).

There was not always unanimity in subsequent family meetings over the years. For example, in the early 1960s, the group (soon expanded to six with the addition of Hubert F. Sontheim, the husband of Marion MacMillan, daughter of John Jr.) had had to deal with an acrimonious issue relating to John Jr.'s French-built oceangoing barges. Although John Jr. initially owned these barges, they were sold after his death to Cargo Carriers, Incorporated (CCI), the inland waters transportation arm of Cargill.

The new leadership of Cargill, 1961: left to right, Fred Seed, Bob Diercks and Erv Kelm.

The terms of this sale favored the John MacMillan, Jr., estate and family more than the Cargill MacMillan family and the Austen Cargill estate as represented by Jim Cargill and his sister. As long as the barges were on the CCI books, all of the families were sharing the losses, even though it was a project only of John Jr. The issue was finally resolved by the John MacMillan, Jr., estate reimbursing the other families, utlizing in part notes from John Jr.'s widow, Marion, at nominal rates. But the entire process had eroded some of the goodwill in the family group. There have been only a few further examples of such tensions. One of the high-ranking objectives in that first 1961 accord and one that has remained important over the years was "avoid family feuds."[13]

Cargill, 1961

The resolution of this potentially knotty management succession issue gave further texture to the overall picture of Cargill as a company.

Two concepts—independence and control—underlie Cargill beliefs. The first of these, independence, was not a particularly strong goal of W. W. Cargill. He was a consensus-builder, joining with a wide group of other people in various combinations of partnerships, joint ventures and so forth. This was not so, however, for John Sr. The onerous task of settling the W. W. Cargill estate and the feeling of being at the mercy of creditors and others truly upset him, as it had back in his own family's Texas grain business. This fear of being deprived of power was transmitted intact to the next generation, so throughout the officerships of both John Sr. and John Jr. the Company chose always to "go it alone." In the highly competitive industry in which they lived, the ability to move quickly and decisively on the basis of one's own information and analysis without giving up any independence to another company was viewed as a cardinal virtue. Joint ventures or any other kind of shared ownership were instinctively mistrusted. The industry was one of secrecy to begin with, and Cargill carried this to its logical end and sometimes beyond.

Juxtaposed to independence was a second, sometimes quite antithetical goal—control. One would gain more independence over a particular function if full control was held and, in this sense, the concepts were congruent. The two families wanted complete control of "their" company. While John Sr. had allowed about one-third ownership by employees and outsiders in the settlement of the W. W. Cargill estate in 1916, later the family (led by John Jr.) pushed hard to return all of the voting control to the two families. The desire for family control was strong among the five young members of the next generation in that 1961 discovery of their own objectives.

Ownership control through shareholding is not, of course, the same thing as control of the people of the organization, and here the Cargill chief executive officer and other senior officers consistently had difficulty in defining just how much centralized control of management could and should be used. John Sr., a strong and decisive chief executive officer, believed strongly in vesting responsibility and authority down into the organization. Indeed, one of the tenets strongly held by Cargill people down to the present is the belief that people should be given as much responsibility as possible as early as possible in their corporate careers. On the other hand, John Jr. paid much lip service to this concept over his years of leadership but frequently seemed to have difficulty in allowing others to make decisions that he thought he could make better. His supreme self-confidence generally convinced him that he was right—the arrogance of a very intelligent person with a keenly tuned strategic view of the world.

Manifestations of this tension between independence and control, between centralization and decentralization, were seen readily in the issue of management recruiting. Since the days of John Sr., the Company had paid

great attention to recruiting management trainees. During the time of John Jr., this became a rigorous and highly credible process that brought to the Company a set of outstanding new people. These people received a short but well-defined training and were given significant responsibilities quite early in their career. The training program first initiated by Julius Hendel in 1930, reinstituted strongly after World War II and continued with equal fervor after his retirement in 1955, became an outstanding model for the industry. Out in the field, in the terminals and branch offices, these young management people obtained a practical education of great value, with considerable independence vested in them. This testing experience bred many outstanding leaders. Yet the reality of decentralization under John Jr. was frequently less than was professed. In certain key respects, John Jr. did not allow Cargill people to grow and seemed not to have full respect for the organization. He bragged about the Company's fast promotional track to responsibility, but it was a Cargill dominated by his own vision.

The recruiting process was highly stylized. The trainees were generally college graduates out of midwestern schools, generally with agricultural and business management undergraduate majors (although there were significant numbers of eastern candidates, too). There came to be, for example, an almost intractable bias against the master of business administration graduate being hired for a line position. All were white males with only modestly diverse religions. The apparent sameness of this recruiting was replicated more strongly in the training and subsequent promotion patterns for these people. Individuals stayed almost universally within their own initial functions. One was a grain trader or a member of the oilseed group or part of the feed group, but hardly ever did anyone move from one to another. One of the strongest elements of Cargill culture throughout its recent history has been this identification with a particular division, and stereotypes grew about people in each of these divisions being different from the others. Territorial battles were frequent and often surprisingly acrimonious. The system bred insularity, which, repeated throughout the Company, produced a further corporate insularity. Cargill thought its own way was best, seemed often to have a sublime arrogance about Company abilities and a scorn for any other way of doing things. Cargill truly had constructed an organizational mind-set that seemed to tell its people that they didn't need any help from anyone—they were doing things the best way, and the system could not be improved. The pervasive disdain for consultants in the Company during this period was an apt example of this hubris.

There was a sharp difference also between the days of John Sr. and those of John Jr. in regard to innovation. John Sr. wanted steady growth and no swings; caution and conservatism were his bywords. Conservatism was

certainly a favorite word in the days of John Jr., too, but it was a very different form of conservatism, applied particularly to national affairs and political philosophy. John Jr. was not a conservative in terms of the business (even though Cargill MacMillan, Austen Cargill and John Peterson strove to control him in regard to financing expansion). John Jr. had an idea a minute, and many of these were very good indeed. Some of the significant and lasting innovations of the industry came directly from his aegis.

But it always was *his* agenda, and innovations always had to be fitted to his own concepts of the business. Good as these often were, his vision of innovation, as with other aspects of the organization, tended often to encompass the whole field—John Jr.'s dominance sometimes stifled other innovation in the organization. Cargill MacMillan sensed this early on; he wrote John Jr. in 1937: "All the boys have the idea . . . that whenever you are on a vacation you come back all full of new ideas and you might be very much annoyed if we spent any money which you might want for your ideas . . . they are undoubtedly right." However, this did not seem to change John Jr. one iota—he thought this was the way things should be.

Throughout the eras of both John Sr. and John Jr., loyalty to the Company was highly valued, "disloyalty" highly denigrated. It was a telling comment that John Jr. made in the late 1950s about the new, independent Tradax group in Geneva, that it should not hire people with extensive outside experience but rather fresh college graduates, for then there would "never be any doubts lurking in our minds as to the loyalty of our organization." Often the term paternalistic has been applied to Cargill, perhaps more so during the years of John Sr. than John Jr. Both of these men were compelling chief executive officers who believed they knew what was best for their employees. In this sense, the word paternalism seems apt. Yet it oversimplifies, in the sense that there was a verve and excitement to the Company all through this period, a reciprocal enthusiasm on the part of the people about what Cargill was doing and where it was going that made the sum of management-employee relations so effective. There was a powerful set of shared values, unreservedly reciprocated between and among people all through the organization, that gave Cargill a particularly strong combination of employee beliefs and faithfulness. One younger executive left the Company in 1947 but wrote Ed Grimes: "There is something about a spirit in Cargill that exists in few other firms . . . several people told me that they thought I had Cargill stamped all over me and could never rub it off. I am finding that it is very difficult to make the change." In some complex way, Cargill meant a great deal to its employees. Being a Cargill person was a matter of pride within the Company and envy from those on the outside. That this was true despite a modest salary and compensation structure is all the more remarkable.[15]

Some significant part of this stemmed from the values and ethics of one person, John MacMillan, Sr. His honesty, his sense of fairness and propriety, his frank and straightforward manner (which he expected others to reciprocate) cumulated as a set of personal characteristics that served as an extremely potent role model for people with whom he worked. He strove to pass these qualities on to John Jr., but they never quite took. Perhaps his esteem for and immoderate pride in his brilliant son got in his way.

Again, caution about stereotyping is in order, for it was not that John Jr. was the antithesis of these qualities. Rather, John Jr. came up through a different set of experiences in the business, a trading mentality, that gave him a combative, argumentative, bargaining basis for his business life: "Weren't we clever, wasn't it exciting that we were able to outwit them." John Sr. never wanted to fool people, but this quality is often part and parcel of trading and bargaining. John Jr. always hewed strictly to his own definition of honesty and had an unwavering view of this. He never knowingly told a falsehood himself, nor would he allow this within the Company. At the same time, he was always pushing at the margins, always wanting the next and best tactical step, willing to test both industry and government if he believed that the vigors of competition were being meddled with by anyone. The Company, too, in his time was more willing to risk than under John Sr.

Thus, this bedrock Cargill value of integrity and honesty was particularly the product of those complex, believable convictions of John Sr., represented personally in his lifetime and recalled after it. Austen Cargill also provided a singular moral force at several critical testing times. For example, his insistence in the mid-1930s on Cargill giving a lifeline to a whole set of failing country elevators rather than picking up their properties after a bankruptcy, a decision that countered John Jr.'s original plan, gained the Company wide approbation and loyalty among its customers. Cargill MacMillan and Terry Morrison, too, spoke frankly, representing the John Sr. viewpoint, at a few key junctures in the later periods of John Jr.'s time. Ed Grimes' relations with older employees also were a bridge back to John Sr..

The sum of all of these Cargill attributes gave a uniqueness to the Company that for years had been widely recognized in American industry. When the word "Cargill" was mentioned, in 1961 and earlier, it conjured up to the person hearing it a cohort of individuals thinking alike, unpretentous people believing strongly in and representing very well their Company and industry. Cargill had been able to institutionalize excellence, a precious and elusive quality. By 1961, Cargill was *the* leader of the world grain trade, respected, envied and even feared by those who had to deal with it. For its employees it was a company that could be believed in and trusted and one in which they could hold much pride. Cargill people typ-

ically were strongly committed to a work ethic, had accepted their organization's goals as their own and pursued these in a persistent and often self-sacrificing manner.

So many of these qualities accurately describe the Cargill of today that one would not be far off the mark in saying that the modern Cargill already had been established at the end of 1960—that the present Cargill belief system is a direct extension of the set of values put in place by these pioneers, W. W. Cargill, John MacMillan, Sr., John MacMillan, Jr., Cargill MacMillan and Austen Cargill (and with a few significant additions from other family members, Daniel MacMillan in particular, and their senior colleagues throughout this period). That this is so is ample testimony to the robustness of that historic vision.

The Chase Looks at Cargill

Many features of the Company's culture were put in sharp focus in the fall of 1963, when the Chase Manhattan Bank was asked by Cargill top management to evaluate the organization's overall performance. The occasion for the study stemmed from the Company's consideration earlier that year of possibly forming a wholly owned finance subsidiary to hold portions of the Company's receivables and from the additional notion of borrowing a sum of up to $40 million in the commercial paper market in lieu of that amount of bank borrowings. Management's reasons for raising these two possibilities originated in some weak performance in the period immediately after John Jr.'s death. The causes of this mostly lay within specific Company businesses, but they also were influenced by the transition problems themselves. Earnings, which had averaged $5.5 million in the preceding six years, dropped to $3.5 million in 1962, with only a moderate increase to $4.3 million in 1963. The first of these figures was the lowest since the unfortunate 1955 experience.[15]

The Chase consulting group was urged by Cargill management to look at all aspects of the business and to be frank in its analysis. Because of this wide-ranging scope, it was a "first" for this proud Cargill management team, so wary of outside advice, so mistrustful of "management consultants." Chase had been Cargill's lead bank for many decades; its senior officers, old trusted friends. They probably were in the best position of any group of people to command management's attention—and they got it. The resulting report was painfully honest, and quite critical of Cargill in a number of respects.

First, the team constructed a credible set of industry figures for comparison, cumulating the figures of 11 outside companies for a composite to test against Cargill's overall performance. Subgroup composites were used to highlight individual Cargill divisions. This approach led to some telling

comments about these individual divisions. The analysts were equally trenchant in their generalizations about the Company as a whole, for they went beyond quantitative comparisons alone to speak to the Cargill culture itself.

The Chase team found what they considered to be disturbing comparisons. Net profit had declined in an absolute amount, in relation to sales and as return on both net worth and total capital. Working capital had moved irregularly downward over the preceding five years and, in comparison with the industry composite, appeared to be substandard. Cargill was more highly leveraged than the composite, with heavy debt concentrated in current borrowings (a pattern, of course, common to the grain trade). However, although Cargill's capital and debt seemed clearly out of line, this was "more effect than cause of the poor earnings." Indeed, said the authors, there were significant problems in a number of the individual operations. "A major part of the Company's trouble," said the authors, was in the Grain Division, which since 1958 had had a substantially lower return on investment than the Company as a whole. The division's trading had been "competent and successful," but storage revenues had been increasingly disappointing. Because of heavy political pressure, the Commodity Credit Corporation, which had taken on the "mountains" of surplus commodities, had begun to eschew private warehousing and had relied more on its own storage. An industry problem of grain storage overcapacity ensued, with sagging storage rates as its inevitable end product. The division had attempted to increase storage for its own account, but this effort had fallen short. So the analysts urged Cargill to make a careful study, elevator by elevator, to determine which locations were bleeding the Company the most. The Company's own elevators should be shut down first, but even leased space (some considerable part of which was tied up in longer-term, expensive leases) should be considered for subleasing to others.

The Feed Division had been experiencing a revolutionary change in the market. A pronounced trend toward fewer and larger farms made farmers more sophisticated in keeping records of feed consumption, weight gain, and the like. Under the old system, radio had been used as the prime marketing device for advertising. Orders originated from just the dealer network. This gave way to a much more complex form of marketing, in which dealers now had to be intelligent salesman, much better educated and trained. Cargill was in the process of upgrading its entire marketing arm in the Feed Division. The leading competitor, Ralston Purina, already had moved aggressively in this direction; Cargill should too. The Chase analysts were particularly concerned about the Feed Division's poultry feed business. Poultry industry performance had been spectacularly poor for several years, and Cargill had become deeply involved in the produc-

tion side of the business, with contract production of turkey and eggs that had been unprofitable. The Company also had begun to extend credit to farmer customers, especially poultry growers, to allow them to buy grain locally for mixing with Cargill's feed and sometimes to finance farmers' fixed assets. "The results have been unfortunate; Cargill has charged off $1,967,000 of uncollectable receivables . . . over the past five years—more than the division's entire net profit for the period." The Company, said the analysts, should either pull back from the business or be prepared to spend large sums of money to make the poultry business stand on its own feet. It should not be considered a poor relation of the feed business and should not try to do the job with half-hearted allocations of money and manpower.

In either case, the division needed to develop much better records, for the lack of accurate individual product-line figures "reveal very little as to the reason for this sudden drop and the disappointing record." The Chase report even quoted an embarrassingly naive statement from the 1963 report of the division: "This is the first year that we have attempted to run on a tight, detailed budget at all offices and plants. It is the first time we used it as a management tool and we can't help but believe it had a beneficial effect on our operations."

The Oil Division record was excellent. Cargill led the industry, its return on average net worth and return on average capital much higher than the Chase's industry composite. The soybean was the star, but flax also had been highly profitable, and the copra business had been reasonably successful.

In the Special Products Division, the Chase analysts advised against continuing with hybrid seed corn. There had been losses in this operation in 11 of the previous 14 years. The resin business, on the other hand, had been profitable. The analysts counseled moving slowly in new directions, with more exhaustive product and market research. Similarly in the commodities department, molasses and salt backhauls had been increased over the recent period; a large salt mine had just been constructed on Belle Isle in Louisiana. Production here was promising, but there would be much increased marketing demands on the operation. In this division there was also a new fishmeal operation in Peru, just purchased, with its potential still to be determined.

Cargo Carriers Incorporated (CCI), the Company's inland-water transportation arm, was still a subsidiary, wholly owned by Cargill but its stock remaining in a voting trust for legal reasons arising out of Cargill's secured bank borrowings. Its inland-waterways barge operations had provided CCI's major profitability, although, the analysts pointed out, the "Erie Canal business is dead" with the opening of the St. Lawrence Seaway, and

Cargill's equipment was for sale. Similarly, the French barges ordered by John Jr. had proved to this point to be almost unusable and certainly unsalable. The analysts urged the Company to resist the temptation to expand into other types of shipping in the future; the idea had been given a fair trial and found to be a costly mistake. (Here the Chase group was proved wrong by later events, for Cargill expanded its ocean shipping with success, especially in the 1970s.) Further, the Company should not feel obliged to continue CCI forever; it did not appear necessary in order to conduct Cargill's principal business successfully. When Cargill's return on investment was greater than CCI's, then disposal of that branch might be considered, putting the money realized to work in Cargill, where it would bring a greater return.

Tradax had been a completely separate company from Cargill since its institution in the mid-1950s, but in 1962 this changed. Cargill's wholly owned Canadian subsidiary purchased newly issued Tradax stock in an amount sufficient to give the Canadian company a 55 percent holding, and for the first time Tradax was consolidated in Cargill's 1963 statements. The Chase group had no specific recommendations here.

The Chase analysts felt that certain aspects of the special Cargill culture were at the root of some of the Company's malaise at this time. Cargill's management "gives the impression of being grain-oriented . . . both a strength and a weakness." There had been real synergy between the Grain Division's trading over the years and the subsequent success of similar soybean trading in the Oil Division. Yet this bias toward grain included a reporting and accounting method that did not provide a breakout between trading and storage and led to feed and oil not having adequate bases of comparison. It was necessary for profit-and-loss figures to include cost of goods sold, margins, expense, and so on, with ratios to sales computed for major categories. In sum, the Company needed to employ more of the tools of financial analysis that by this point were in widespread use in American industry. These techniques would expose for each product and function the strengths and weaknesses and ultimately the underlying assumptions that to some extent had been hidden by the method Cargill had been using for many years to present financial information.

"Great emphasis is placed throughout the Company on sales growth and expansion of activities, geographically and into new product areas," the analysts continued, but "any worth-while ambition can be carried to extremes . . . this preoccupation with growth and expansion has been more of a factor in management thinking than have considerations of profits." In a speech to a Company management conference in 1953, John Jr. had summarized this corporate emphasis on growth in sales: "We have an abnormally rapid growth factor . . . there's nothing, if you want opportunity,

like going with a growing concern . . . pass that on everytime you see any of these kids; just pound it home to them. Its a terrific selling point. Every youngster knows what he wants; he wants opportunity!"[16]

However, said the Chase analysts, the preoccupation with sales had not been followed by an equal concern for profitability. Rather than profits-to-sales ratios, the Company had given major focus to Cargill's net worth, and it was always absolute size, rather than a concentration on percentage figures of return on net worth. Cargill MacMillan had signaled this preoccupation once again, in March 1958, when he wrote: "In 1965 Cargill will celebrate its 100th anniversary. I am extremely anxious that when that year comes we will be able to exhibit a net worth of a hundred million dollars." (Though disabled, he did live to see this wish come true, for the net worth at the end of the 100th year, the crop year 1965–1966, was $109,982,000.)

John Jr. had often stated that the family wanted to "double the company every seven years." However, only in various combinations of years during and immediately after World War II had the doubling of net worth in a seven-year span occurred. The average return on net worth during the 1950s was 12.2, but this had dropped to an average of 6.4 for the years 1960–1962, the three years just prior to the Chase study. Their report concluded, "this industry is not doing as well as American industry generally, and Cargill is not doing as well as its industry." Inasmuch as dividends of the Company over the years were uniformly low, the net worth percentages were not strikingly good even in the excellent years, and the Chase analysts felt that this reinforced the view that Cargill's profitability was being submerged by the lack of good accounting and control mechanisms and the longstanding focus on absolute size of net worth as a criterion for rating performance. Being privately held, with no public focus on "the next quarter's results," the Company had been able to take a long-term view on profit maximization. What concerned the Chase group was whether hewing to such a net worth criterion might be a rationalization for poor short-term performance.

Management thinking still was bulk-commodity oriented, as it was here that management felt it had its core competencies. Some people in the Company characterized this as "a futures market mentality not in touch with the realities of consumer attitudes." But the situation was beginning to shift to a "market-served" basis, rather than a narrower "division-served" basis, with its pervasive "my division" autonomy (this shift has become increasingly apparent in more recent periods). In more and more of the Company's efforts sophisticated marketing was required. Yet Cargill was slow to fill this need, and some senior managers even seemed to resist help on occasion. The Chase analysts advocated more careful planning and market research before new ventures were started and "more willingness to stop or curtail a losing operation" if profitability did not result.

The report also contained a set of finance-oriented suggestions. The authors advocated giving up the idea of a captive finance company, as they believed that the paper provided by Cargill would not be attractive and Cargill already enjoyed a leverage with its current bank borrowings equal to or better than that possible with a finance company (a self-serving recommendation, as Chase would lose business if Cargill did this). The finance subsidiary idea had come about because of the Company's desire to eliminate unsecured current borrowings at the end of the crop year, an unwavering conviction of John MacMillan, Sr., and a continuing article of faith in the period of John Jr.'s leadership, particularly pushed by John Peterson. The Chase analysts disagreed: "While this clean-up of unsecured debt once had meaning, it no longer does, and we consider that no stigma whatever attaches to the showing of this debt at fiscal year-end. The public . . . never sees Cargill's figures; there is nothing to be gained by removing the receivables and corresponding debt from Cargill's balance sheet for the benefit of the public or security analysts." They also recommended against borrowings by use of commercial paper, in effect saying, "stay with the banks, they are Cargill's best friend in times of stress." Actually, said the analysts, the finance company and the commercial paper proposals were really peripheral—they failed to strike at the heart of Cargill's real problem—greater profitability.

Perhaps the most controversial of the Chase recommendations was their suggestion that Cargill might consider a public offering of either common or preferred stock or convertible debentures. They believed "it should be possible to go public without causing the family to lose control." A collateral benefit would be the ability of the families to "possibly liquidate some of their own holdings, if they chose to, and diversify their investment portfolios." The analysts continued with a seminal thought: "There is also something to be said for the whetstone effect of having public ownership. A company and its management can be sharpened by being exposed to the criticisms of sophisticated stockholders, enduring the scrutiny of professional security analysts, and submitting to public appraisal in comparison with its competitors and peers."

The Chase Manhattan Bank analysis of Cargill was categorically a defining moment, not because management rushed to meet all of the specific recommendations—actually, only a few were accepted. Rather, the value of the report was in what the Chase analysts had dubbed "the whetstone effect," the submission to outside scrutiny and challenge. In essence, Chase had momentarily assumed the role of a surrogate outside director, a post that Cargill had avoided throughout most of its history. John Jr. was enthusiastic about the advantages of Cargill's wholly inside board of directors, especially its ability to meet "on five minutes' notice." The disadvantage of not allowing independent scrutiny by an able outside peer

was dismissed. John Jr., in particular, tended to mistrust outsiders and would not have relished such a criticism or challenge, either.

The Chase report forced Cargill management to be more introspective than it had been in a good many years of self-satisfaction under John Jr. A whetstone "sharpens or makes keen"; to whet is to "goad, incite." That is what happened here.

Cargill 1963–1991: A Synopsis

The histories of the grain-trading industry and of Cargill from the death of John Jr. to the present are both very complex; neither can be summarized in a few pages. There *is* no definitive chronicle of the industry in this period, nor of Cargill, and both will be addressed in books to follow this study.[17]

Many notable events have occurred in the industry during these three decades. Perhaps most striking were the first grain sales to Russia in 1963, followed by Russia's buying again during the 1970s and the embargo by President Jimmy Carter of further American sales to that country in 1980 because of its invasion of Afghanistan. There was another controversial embargo, promulgated in 1973 by President Richard Nixon, when soybean exports were totally banned. Grain inspection continued to be a major problem. In 1976 the government brought suit against 16 firms ("including all the Big League companies with the exception of Cargill," noted Richard Gilmore in his book *A Poor Harvest*) for violations of inspection on $13 billion worth of grain exports. The basic federal law on agriculture had been amended in 1968 and was once again rewritten by Congress in 1977. The world's agricultural production during the three decades 1960–1990 continued to be characterized by recurring surpluses (although a few periods of shortages because of climate, Middle Eastern clashes and other unexpected events brought back once again the controversial pattern of rapid swings in prices). The protectionism in the "Common Agricultural Policy" of the European Economic Community and similar beliefs in Japan clashed with the free trade beliefs of the United States. Domestic U.S. farm policy went through continued iterations, almost always concentrating on oversupply and subsidies. A vocal public often took the farmers to task and just as often expressed skepticism about "the middlemen," the grain-trading companies.[18]

At Cargill, Chase Manhattan Bank's 1963 consulting report, which had been blunt and highly credible because of its quality, made quite an impact on Company top management and likely marked the pivotal point in the transition from John Jr.'s era. Erv Kelm and his colleagues needed just two more years to turn the Company's performance around. In the crop year

1965–1966, Cargill had record profits of $16.7 million, and the following two years were equally good. Kelm believed in becoming more solidly positioned in the Company's most singular skills and abilities, its core competencies. "Don't drop a going boat," he exhorted. Kelm's instinct was expansionist about the international grain trade, a view reinforced by his visit to Russia in 1963. So (for example) export capacity was expanded in the Gulf of Mexico and elsewhere, and oilseed crushing was extended to Europe. The oilseed group also moved into corn milling, a decision that proved very fortuitous. A striking new idea, the "rent-a-train," also was instituted: the Company took long-term leases on entire trains and kept them moving back and forth between central Illinois and the Gulf of Mexico on a turnaround schedule (a project particularly associated with Cargill's Jim Springrose). The Chase report to the contrary, the Company also entered ocean shipping in a significant way.

After a sharp downward step in 1968–1969, when the Grain Division alone lost $3.2 million (longshoremen's strikes at Gulf and Atlantic ports and two similar strikes on the Great Lakes were the most prominent of a number of problems behind this), the Company entered a period of unprecedented growth and profitability over the next seven years. The huge grain sales to Russia beginning in 1972 provided a base, but outstanding performance marked most of the Company's operations. There were record profits all through this period, the $218.4 million of the crop year 1974–1975 being the largest. By 1977, the end of this unprecedented seven-year period, net worth had increased to over $1 billion. That perennial goal of hoping to double the size of net worth every seven years had been greatly exceeded.

The Cargill of 1977 was a vastly different Company from that at the end of the 1960s. The three families, the descendants of Austen Cargill, John Jr. and Cargill MacMillan, had kept ownership of the Company, choosing in the process to continue the policy of small dividends, with most profits funneled back to invested capital. Its huge jump in that seven-year period had made possible both substantial additions in existing businesses (deepening domestic holdings and expanding overseas) and the purchase of new businesses, most in basic commodities but some in other fields (mini-steel plants and the financial markets division are notable examples). Several of these—the new steel plants, meatpacking and expanded poultry production in particular, had relatively large numbers of employees, posing new challenges to a corporate culture that had been built on the closeness of small, tightly knit groups of people.

A new generation of management now took over, as Fred Seed retired in 1974 (he had been president under Kelm from 1969), and Kelm himself retired in 1977. Whitney MacMillan became president in 1976, then chair-

man and chief executive officer in 1977. In his place, M. D. "Pete" McVay was elected president, and when McVay retired in 1984, James R. Spicola assumed the presidency. Spicola died in 1991, and Heinz F. Hutter was elected president. Both Jim Cargill and Cargill MacMillan, Jr., were in senior management, Hugh MacMillan continued his interest in shipping during some of this period and Duncan MacMillan headed Waycrosse, the family holding company successor to Cargill Securities Company.

Over the years 1960–1991, a number of nonfamily professional management served on the board. The post of vice chairman, first assumed by Terry Morrison at the start of this period, was later held successively by Bob Diercks, Walter B. "Barney" Saunders and William R. Pearce. Other board members, in order of their election, were R. J. Harrigan, W. F. Gage, D. C. Levin, C. L. Smith, B. B. Hanson, B. S. Jaffray, J. P. Cole, J. A. Howard and G. M. Mitchell. Cargill continued through 1991 with a wholly inside board of directors.

The years 1977–1990 had been steady growth years in both sales and net worth. Profitability was more modest in the earlier years of this period—several of Cargill's longer-term industries were in a mature, less robust phase, with some retrenchments—but profits picked up measurably in the more recent years. In the crop year 1989–1990, the Company had record earnings of $372.4 million on sales of $44.1 billion, with year-end net worth standing at almost $3.7 billion. The Company continued to move out ahead of its traditional rivals in the grain trade (Continental, Dreyfus, Bunge), but there was no resting on laurels as newer rivals, such as Archer-Daniels-Midland and ConAgra began catching up fast.

At this point the Company was once again facing the challenge of a major transition. In several important respects the situation in 1991 had direct parallels to the 1961 transition, in that there were no family members of the next generation yet in senior management. But there were further complications in 1991 in that such a large portion of senior professional management was reaching the compulsory retirement age at the same time that the senior management family members also were to retire from the board. This time, however, Whitney MacMillan and his colleagues chose to draw on new outside "whetstones" before the transition was thrust upon them. Two separate prestigious national management consulting firms and an able individual consultant were involved with management in assessing key questions concerning the new, more complex marketing role the Company had assumed, the North American organizational structure to effect this, and the overall strategic concerns that would underlie the organization.

Throughout these three decades, that culture put in place so definitively by the three previous generations continued to set the agenda for the Company. The Cargill of 1991 would not be a carbon copy of the Cargill of 1961—too much had happened in those 30 years. Yet, as the Company celebrated its 125th anniversary in an 18-month set of events in 1990 and 1991, and as the new transition loomed ever closer, the motto chosen for the anniversary seemed as appropriate for this moment as it would have been in 1961—"building on tradition."